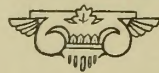




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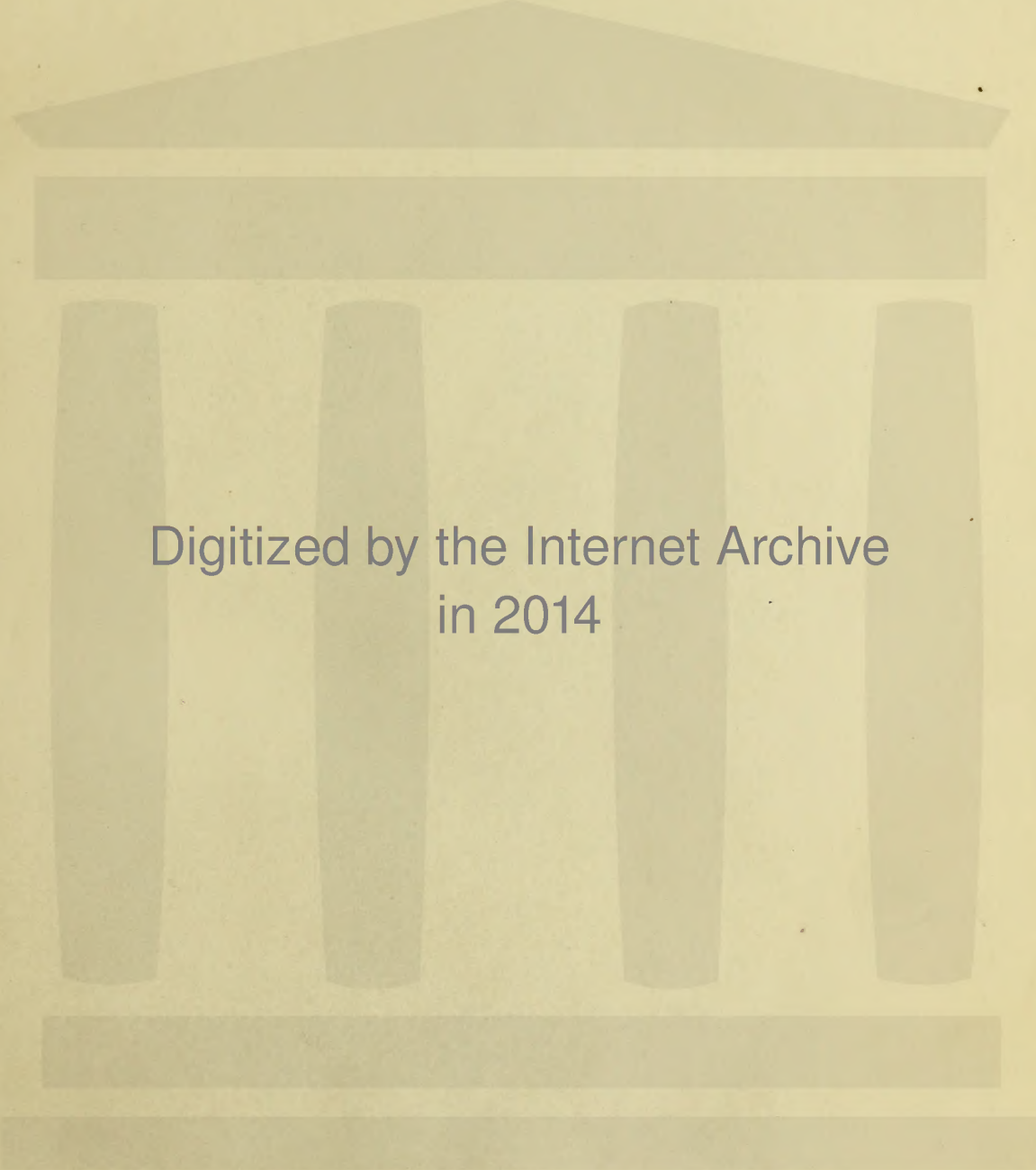
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SPECIALIZING INVESTMENT TRUSTS

A Thesis

Submitted to the College of Business Administration

Boston University

by

Ruth Frances Hiatt, B. B. A.

In Partial Fulfillment of the Requirements

For the Degree of

Master of Business Administration

January 30, 1930

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INTRODUCTION

As a student of finance during the greatest prosperity era that this country has witnessed, the writer became interested in the investment trust movement and, more particularly, in its relation to the bull market of 1924-1929. To narrow the scope of a study of the recent trends in this field, and, at the same time, consider the investment trust in connection with the "new-era" theories regarding common stocks, the subject "Specializing Investment Trusts" was selected for the reasons which follow.

First, for the most part, specializing investment trusts concentrate on common stocks. The fixed type takes common stocks out of the market for the length of the life of the trust; the managed list, as a rule, buys common stocks to hold, at least as long as their outlook is promising. Investment trusts dealing in the stocks of financial institutions emphasize common stocks as neither commercial banks nor insurance companies issue bonds or preferred stock. The single industry trusts, for example, the trusts which deal primarily in the securities of public utility corporations, usually include both junior and senior securities in their portfolios. During the last year or two, however, they too have turned their attention primarily to common stocks.

Second, the specializing trusts, although comparatively

few in number, cover practically every type of investment trust as far as capital structure and management policies are concerned. This, the writer felt, would permit of a more comprehensive treatment of the subject than if the field of investigation were narrowed either to fixed or, on the other hand, to general trusts,--particularly as a number of the specializing trusts may also be classified as general in that they are organized as corporations and follow a program of wide diversification with broad powers granted to managers.

Third, with the rapid increase during 1928 in the creation of investment trusts of the general management type, the writer desired to investigate as to whether the public had lost interest in the specializing trusts because of certain inherent weaknesses in this type or whether the sponsors of new trusts had not adopted the general management type in order to speculate freely on a rising market.

Fourth, the writer was unable to discover that any authorities had made detailed analysis of the specializing trusts individually and collectively.

In October, 1929, while this thesis was in the process of preparation, the overdue market break occurred. According to the Chase Economic Bulletin of November 22, 1929, "The average prices of 50 active stocks, half rails and half industrials,"

flow in nature, never manifestly every type of movement
exists as far as physical structure and material qualities are
concerned. Thus, the writer felt, would point to a more com-
prehensive treatment of the subject than is the title of the
investigation were warranted about as fixed as, or something
hard, as general terms,--particularly as a matter of the
specializing branch may also be classified as general in that
they are regarded as superlatives and follow a general pattern
with characteristics with those points related to nature.
Thus, with this rapid increase in the 1920's in the ex-
tents of investment, trends of the general movement, the
writer looked to investigate as to whether the world is
just another in the specializing trend of science of certain
last century responses to this type of matter the question of
how best to be adapted to the general movement, the in-
vest in specialized trends in a similar matter.
In 1920, the writer was unable to identify with any
specialized or more detailed analysis of the specialized
trends in the specialized and collectively.
In 1920, 1925, 1930, while this trend was in the process of
expansion, the writer looked to the general movement, the
the trend towards the end of the 1920's, 1930's, the writer
looked to the active side, but without any specialization.

fell from a high point of \$311.90 on September 19, to \$164.43 on November 13, a break of 47.3 per cent." "With more prosperity, more money and more assumed confidence than any country on earth, we allowed ourselves to be stampeded into the greatest stock market crash of history", said John Moody according to the Boston Transcript of October 26, 1929.

Queries were answered and theories proven or upset by the break. Unquestionably the investment trusts failed to manifest the strength that so many had predicted for them. Very likely the better managed trusts sensed the approaching storm and, as they later claimed, sold heavily in the late summer or early fall at top prices. Thus they gave an initial impulse to the subsequent reaction. Less judicious trusts made the mistake of purchasing after the first break, exhausting all their capital so that they were unable to take advantage of the major decline. Some trusts tried to support their own issues by repurchasing them.

To review this situation and to bring together some of the various opinions expressed during the market break, the writer has included a chapter on recent trends. As the investment trust is in its development stage, it is constantly necessary to bring the subject down to date. In making this study of the specializing investment trust, the writer has

endeavored to hold this as a complementary aim.

To give the uninitiated a better understanding of the investment trust movement, the first chapter of this study contains a summary of the historical development, comparing the British trust with the American. A brief resumé of the economic factors favoring the American growth of these financial institutions follows. Several methods of classifying investment trusts are considered in the third chapter. An analysis of over twenty representative types of specializing trusts constitutes chapter four. The next chapter deals with the latest trends--merging, requirements for listing on the New York Stock Exchange, and the pros and cons of regulation. The last chapter endeavors to present some conclusions as to the future of the specializing investment trusts.

endeavored to hold this as a preliminary step.

It gave the minister a better understanding of the
various times involved, the first copies of which were
then a number of the historical documents, and
which were all the minister. A brief review of the
whole history of the American people in these
institutions follows. Several weeks of study, of course,
went through the course in the first class. In the
of over twenty representative types of agricultural
products of the West. The next number dealt with the
late 19th century, and the minister for living in the
York State, and the new and old of the
The last chapter dealt with the present and future
of the future of the American people.

CHAPTER I

BRIEF HISTORY OF THE INVESTMENT TRUST MOVEMENT

The term "investment trust" has been used for over a half century to designate a type of financial institution which originated in Great Britain during a period when money was plentiful, when the market for capital was saturated, and when there was a rapid growth of new ventures, particularly in the United States and later in South America. Although in Holland, Switzerland, and Belgium* this type of institution in a somewhat different form has existed for nearly a century, it has been in Great Britain and the United States that the movement has had the greatest significance, the trusts of the latter country now outstripping all others in variety, in numbers, and in resources. The estimate as to the number of these organizations in the United States varies, some authorities saying that there are practically five hundred companies that can be classified as investment trusts, while others, eliminating those concerns which border on the type of financing or holding companies and do not deal exclusively with investments, place the number around three hundred with invested capital estimated at over two billion dollars.

In England and Scotland, the investment trust is sometimes called a "financial trust" or a "trust company". To-day it is necessary, as it is in this country, to examine

*The first Investment trust is supposed to have originated in Belgium. This was the Societe General de Belgique. (Fed. Res. Bulletin, Nov. 1920 and Jan. 1921)

the nature of each company's business to determine whether it should be included as an investment trust in the more accurate use of the term. In Scotland and England, the early investment trusts represented what the name implies and were, properly speaking, trusts as the funds were managed by unincorporated trustees. Today, however, both in Great Britain and in the United States, these organizations generally operate as corporations. Although in this country they may operate as joint-stock associations or common law associations or even as partnerships or under the direction of one individual, in Great Britain they are required to incorporate under the Companies Act.

Since the term investment trust is now used so freely, it is necessary to distinguish between financing and holding companies. All three types of these organizations are alike in that they may raise capital by issuing their own shares and bonds and reinvest this capital in the securities of other enterprises. The holding and financing companies buy the securities of these other corporations with the intention of gaining control of them or of promoting them. The former thus acquire their profits from a great variety of sources as issuing and underwriting securities and participating in a share of the business profits of the enterprises

which they promote. The true investment trust, on the other hand, avoids the idea of securing controlling interests and the responsibilities involved and deals with investments rather for the purpose of acquiring a profit from the interest and dividends collected on the securities owned and from their turnover and appreciation.

To the uninitiated it is also necessary to explain that the investment trust has no connection with those large business consolidations in the form of monopolies at which the Sherman Anti-Trust Act aimed--those big combinations regarded as being in restraint of trade and commonly known as "sugar trusts" and "steel trusts". It is furthermore important to draw a distinction between what we know in this country as "trust companies", those "department stores of finance" which render a variety of services including banking, agency, issuing, and investment.

In answering the question, "What is an investment trust?" the following definition, set forth by Curtis W. Childs in a thesis, is particularly comprehensive.*

"In defining an investment trust it is necessary to give some consideration to the meaning attached to the term in England and Scotland where the principal prototypes are found. The investment trust 'is a financial institution

For other definitions see Appendix, pages 1a-3a

dealing professionally in the investment of securities with due regard to diversification. It is generally in the form of a corporation or voluntary association issuing shares based upon holdings of various kinds of securities so as to afford the investor a high degree of safety through diversification.' In other words, four special characteristics stand out: '(1) it is an organization which secures capital by the sale of certificates, shares, or stocks and bonds; (2) it invests the funds so obtained in a wide variety of securities so that the law of averages may operate in protecting the portfolio; (3) it avoids controlling interests, and so limits its participation in any one security that directive and managerial control is avoided; and (4) it undertakes continuing supervision of the investment fund, on much the same principles as those which any conscientious trustee enjoying discretionary power should apply in caring for estates.'" *

The principle underlying the idea of the investment trust is attributed to the thrifty Scotch*. The story is told of a young clerk in a jute mill who, in about the year 1860, was preparing to visit the United States. His friends, having heard of the opportunities for getting rich by investing money in this country, asked him to use his judgment and find a good bargain for them. As a number of folks made this

*Harvard Business Review, Vol. V, p.207

*"Investment Trusts", pamphlet by Edgar Higgins, page 3; reprinted from Bankers' Monthly, June, 1927.

same request, it occurred to the young adventurer that he might buy several different bargains and thereby spread the risk. It is, moreover, claimed that the Scotch solicitors were the first to adopt this idea as a method to avoid the splitting up of an estate in its transfer to the heirs. These solicitors also cooperated with bankers and financiers in accumulating the funds of the small investors. Although the movement began in Scotland, the English were quick to grasp the idea, and the development in both countries has been along practically the same lines.

During the early part of the nineteenth century, the British people had most of their money invested in government obligations, particularly the so-called "consols", and in real estate and mortgages.* When the national debt was converted, many of these bonds were replaced by like bonds but they bore considerably lower rates of interest. The result was that the investing public began to speculate in order to obtain higher yields. The middle class investors, with no information or skill in investing, suffered severely. Foreign governments recovering from the results of the Napoleonic Wars offered attractive rates in the London market. Within a period of three years, 1823 to 1826, loans to the extent of \$50,000,000 were floated in London, but

* See Appendix, page 6a

many of these obligations were never paid.* This type of speculation was followed by investments in railway securities, but the panic of 1847, as a result of the railway boom, brought financial ruin to a great many.

Although many of the enterprises launched during this period seem to resemble investment trusts, on close examination, they prove to be different in some respects. In England, the International Financial Society, Ltd., established in London in 1863, was the first public enterprise of an investment trust character in the modern use of the term. In 1865, the Foreign and Colonial Trust was founded "to give the investor of moderate means the same advantages as the large capitalist in diminishing the risk of investing in Foreign and Colonial Government Stocks"**. At that time the interest rate on the consols was $2\frac{1}{2}\%$ to 3% , and as they were selling from 103 to 113, the yield was far from attractive. With British oversea trade increasing and the new world countries, particularly the United States and South America ready for industrial development, foreign government bonds and more speculative ventures with better returns lured the investor. As there was little known about such securities, the more informed and experienced persons cooperated with the individuals who had the funds on hand. Since it was possible to borrow money in England and Scotland for $3\frac{1}{2}\%$ to $4\frac{1}{2}\%$, those

*"Investment Trusts", Lawrence M. Speaker, page 9

**See Appendix, page

many of these railways were under state control. This type of speculation was followed by investment in railway securities, and the panic of 1907, as a result of the railway boom, brought financial ruin to a great many.

Although many of the enterprises launched during this period seem to resemble investment trusts, in close examination they prove to be different in most respects. In England, the International Financial Society, Ltd., established in London in 1885, was the first public enterprise of an investment trust character in the modern use of the term. In 1886, the Foreign and Colonial Trust was founded to give the investor of moderate means the same advantages as the large capitalist in obtaining the right of investing in foreign and Colonial Government securities. At that time the interest rate in the market was 5 per cent, and as they were selling from 100 to 110, the yields were 4 to 5 per cent. With British overseas trade increasing and the new world countries, particularly the United States and South America, ready for industrial development, foreign governments bonds were especially attractive with better returns than the domestic. As there was little known about such securities, the more informed and experienced persons connected with the initiative who had the funds at hand, since it was possible to borrow money in England at 5 per cent, they

* "Investment Trusts", Lawrence E. Bessent, 1908.
The Standard, 1908.

organizing the movement obtained cheap working capital at home and invested it decidedly to their advantage in other countries which were handicapped by a scarcity of investment capital.

The development of the trusts was gradual, but in 1890, the year of the failure of Baring Brothers, there were 55 British investment trusts in existence. During this period many of the less desirable types were wiped out and most of the companies suffered severely. The next few years marked the crisis in the movement, and many of the trusts learned from experience the consequences of non-diversification of risk, of buying questionable securities, and of other poor policies which were the results of an over zealous attempt to make big profits.

From 1900 to 1910, the expansion was rapid and the trusts, particularly the older companies which secured their working capital when interest rates were low, prospered to such an extent that during the World War they were prepared to play an important part in assisting the British government to finance it. Foreign securities before the War aggregated about five billion dollars. During the War, these securities were mobilized by aid of the investment trusts and sent to the United States to be liquidated. By means of their American security holdings, the trusts were able to obtain large credits on short notice and so subscribe liberally to the War loans.

regarding the movement obtained through working capital at home
and invested is actually to their advantage in other countries
which were handicapped by a scarcity of investment capital.
The development of the first was gradual, but in 1913,
the year of the failure of the British market, there was a British
investment crisis in existence. During this period many of
the most valuable types were wiped out and most of the non-
period suffered severely. The next few years marked the decline
in the movement, and many of the types learned from experience
the consequences of non-investigation of risk of being
practically negligible, and of other poor policies which were
the results of an over-optimistic attempt to make the market.
From 1913 to 1915, the movement was rapid and the market
particularly the other countries which secured their working
capital when interest rates were low, continued to build up a
trend that during the war they were expected to play an
important part in rebuilding the British government in the new
1919. Foreign investment in the United States was mobilized
by all of the investment trusts and sent to the United States
to be liquidated. By means of their American security holdings,
the trusts were able to obtain large credits on short notice
and as a consequence liquidity in the United States.

As a class, the British trusts withstood the strain of the War remarkably well, many of them, during this period, profiting by the differences in exchange. They sold their securities in New York at a premium and purchased British and European securities at very low prices. The most conservatively managed trusts fared best and paid dividends in many instances as high as 8%, the average of forty-eight representative trusts showing 6½% during the entire War period.*

Since the War there have been many new trusts formed, and in 1924, about the time of the impetus to the movement in America, there was an active development in Great Britain. Although previous to 1924 these trusts withdrew considerable of their holdings in American securities and increased their interests in Latin America, during the recent prosperity period here, British trusts have again favored American securities, particularly the better grade investment stocks. It is said, nevertheless, that during the advance in 1929, they sold heavily. At the close of 1926 there were 107 investment or financial trusts listed on the London Stock Exchange and 150 on the Stock Exchange of Great Britain, besides a great number of unlisted trusts.**

After the War, America was quick to see the benefits to be derived from the investment trust idea. At first it was believed that the trusts in this country would follow the same

*"The Investment Trust"--pamphlet prepared by Bosworth, Chanute, Loughbridge & Co., page 2

**"What Is an Investment Trust"--pamphlet prepared by Blyth, Witter & Co.

is a class, the British...
...very of them, during this...
...of the... They said their...
...in New York of a... and...
...at very low prices. The most...
...these... and... in many...
...of forty-eight... showing
...the... during the...

Since the war there have been many new...
...in 1900, about the time of the...
...there was an active... in...
...to 1900 these... of...
...in American... and...
...Latin America, during the...
...these have...
...of... it is said, nevertheless, that
...the... in 1900, they...
...there were... investment...
...London Stock Exchange and... of...
...besides a... of...

After the war, America was...
...from the...
...that the...

"The Investment Trust" -...
...is an...
...
-7-

course as the British institutions and become a media for foreign investment and assist in extending financial aid to Europe. In December 1919, Congress passed the Edge Act which, in part, provided for the formation of corporations, chartered by the Federal Reserve Board, that in some respects resembled the British investment trusts. As the Edge Act required an initial stock of \$2,000,000 at least, with one-fourth or more paid in cash before the corporation commenced business, only one or two concerns have chosen to operate under it.* The few trusts which did invest in European bonds and in foreign business soon found that European credit was doubtful and that there was greater opportunity to make a profit in domestic securities. One of these companies which had the greater part of its capital invested in foreign securities was the Overseas Securities Corporation, organized in 1920 and claiming to be the first American investment trust. Its different holdings reached the hundred mark, representing investments well diversified among some twelve to fifteen countries.

After 1920 there was a pause in the investment trust movement in this country as there was a decided change in business conditions. Post-war prosperity suffered a collapse, so it was 1924 before the real growth started. In January, 1924

*According to William H. Steiner this Act has been used for long term purposes only once. In May, 1926, the First Federal Foreign Investment Trust was chartered by F. J. Lisman & Co., and this firm "has interested itself in financing as well as in investment operations." "Investment Trusts", Steiner, p. 49

there were probably not more than fifteen investment trusts in existence with assets estimated around \$14,000,000. Since that time companies have been organized in great numbers and varieties to meet American needs and conditions.

As the British investment trusts had proved successful over a long period of operation, many sponsors of the early trusts in America expressed their intention of pursuing the same sound, conservative policies which had proven so satisfactory abroad. The investment trust in America has, notwithstanding, developed along its own lines, and, in many respects, methods of organization and of operation depart widely from the British practices. There is a more or less superficial resemblance. The principle of pooling the funds of a number of individuals, the idea of diversification of holdings, the establishment of a central organization to manage the purchase and sale of securities, exists modified and revised, but the five hundred or more so-called investment trusts in this country differ greatly from the original British conception.

There has been considerable discussion as to whether the conservative British type of trust is not more desirable than the newer varieties adopted in America. British investment trusts have long advocated broad diversification of capital in high grade issues which will insure safety of principal and

There were probably not more than fifteen hundred firms in existence with assets estimated around \$10,000,000. It is also estimated that these companies have been organized in Great Britain and

various to meet American needs and conditions. As the British investment in the past proved successful over a long period of operation, many elements of the early years in America expanded their interest of pursuing the same sound, conservative policies which had proven so successful abroad. The investment firms in America had, naturally, developed along the same lines, and, in many respects, methods of organization and of operation began to differ from the British practices. There is a more or less superficial resemblance. The principle of pooling the funds of a number of individuals, the idea of diversification of holdings, the establishment of a central organization to manage the business and sale of securities, etc., etc., are common to both. The number of firms so-called "investment firms" in this country differ greatly from the original British companies. There has been considerable change in the number of companies which type of firm is not very distinctive. The most varied types of firms in America. British investment firms have been absorbed into other types of capital in high grade firms which will have a high degree of principle.

return a reasonable amount on the investment.

Their plan of capitalization is usually such that it offers two types of securities to the investor; senior securities, bonds and debentures representing the investment side of the picture, and junior securities, consisting generally of common and preferred stock. The theory is that large amounts of senior capital can be secured at fairly low rates, while part of the excess earnings may be ploughed back in the form of reserves and part may be applied to the equity stock.

The average of twenty-one representative British investment trusts stands as follows: debentures, 48.1%; preferred stock, 28.6%; common stock, 23.3%.* Some of the corporate trusts in this country have similar capital structures. American Founders group shows an average for its four affiliated investment companies closely approximating the above. At the other extreme, a number of the American fixed trusts have one hundred per cent common shares outstanding. For instance, Incorporated Investors had 671,178 shares of common stock outstanding in June, 1929.

In the case of the corporate type trust, the principle of trading on the equity is applied. This in itself is not to be condemned. It may, nevertheless, foster illegitimate practices. While the British trust manager pays the same price for his

*Address of the President, American Founders Corporation, April 8, 1929--page 24.

remain a reasonable amount on the investment.

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two types of securities to the investor; senior securities,

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mon and preferred stock. The theory is that large amounts of

senior capital can be secured at fairly low rates, while part

of the excess earnings may be allocated back in the form of re-

turns and part may be applied to the equity needs.

The strategy of financing is representative of the investment

and is usually stated as follows: Senior securities, 40%; preferred

stock, 10%; common stock, 50%; 5% of the common stock

in this country have a fixed dividend, 4%.

Dividends are paid on the common stock for the first five years of

the life of the company, after which the dividend is at the discretion

of the board of directors. The common stock has no

fixed dividend, but the board of directors may, at its discretion,

pay a dividend on the common stock out of the

profits of the company.

In the case of the corporation, the dividend is

paid on the equity as follows. This is stated in the

corporate charter, and is subject to the discretion of the

board of directors.

Source of the information, National Industrial Conference

on Finance, 1927-1928.

common stock as the general public and, as William Steiner* expresses it, "merely trades on the equity with his fellow stockholders against the bondholder", the American manager is inclined to be more ambitious or even greedy. The compensation paid the English director is in the form of a small fee or a salary. Moreover, he usually holds a considerable investment in common shares from which, over a period of time, he derives some advantage through their increase in value. The latter practice is considered advisable in that it tends to create a personal interest in the successful operation of the trust. As his salary is not based on the income of the trust, the English manager does not have the incentive to take undue risks.

In contrast, the corporate type of American trusts sell their senior securities to the public, while the managers or organizers take the junior securities. Sometimes it is the custom to offer the public a unit of preferred and common or the public may buy bonds with bonus or purchase warrants for common stock or else convertible bonds, or there may be several other alternatives. Generally this gives the managers an undue share of the profits. Again, when the public and the managers buy the same kind of securities, the managers buy at a better price than the public. In the case of fixed trusts, the managers, of course, cannot derive their compensation from trading

*"Investment Trusts", William Howard Steiner, page 75

on the equity; accordingly, they are paid a stipulated fee for their services.

Whether the American method is a stimulus to greater effort or whether a regular salary basis is to be preferred probably depends, after all, upon the character of the management, although unquestionably there is more opportunity to deceive the public in the case of the American method.

Most British trusts do not regard profits acquired from trading as income to be paid out in the form of dividends. Instead, they treat this as reserve and surplus so that they may be able to pay dividends during depressions and in periods when business conditions do not warrant it. Many American trusts follow the same practice. American Founders group, for instance, maintains a policy of accumulating substantial reserves. It offers the following reasons for so doing: "Profits cannot always be taken to particular advantage to accord with the quarterly dividend dates, and earnings must be figured over a longer period. These substantial reserves and surplus are devised to take care of interest and dividend requirements during any comparatively lean periods and their accumulation in turn increases the earnings applicable to the common stock."*

When a trust has a considerable amount of bonds and preferred stock outstanding, unquestionably it should set up

*"American Founders Group of Companies"--pamphlet published by Harris, Forbes & Co., page 12.

reserves to protect the bondholders and preferred stockholders. The fact that it has a substantial reserve may also aid it in attracting additional capital on more favorable terms. On the other hand, trusts specializing in one class of stock or certificates outstanding argue that a reserve is unnecessary because the purpose of the trust is not to establish a fixed income but rather a fluctuating one which varies with the purchasing power of the dollar. Most of the latter type, however, are now retaining a part of their earnings for a reserve fund. For instance, Colonial Investors Shares, a common stock investment trust, states in its prospectus that a substantial surplus has been accumulated through stock dividends, rights, and in other ways. American Basic-Business Shares Corporation in its Trust Agreement provides "that the Reserve Fund (\$1,000 per unit initially) shall be built up to a maximum of \$1,500 per unit, but only out of distributable earnings in excess of the minimum semi-annual dividend provided for in Fixed Trust Shares."

In several instances, however, the fact that the investor will receive his pro rata share of the earnings is emphasized as a decided attraction. The Amalgamated Investors, Inc., a corporation owned and controlled by the Amalgamated Clothing Workers of America, stipulates in its prospectus that "all earnings (less the stipulated fees received by the corporation

reserves to protect the shareholders and the company's interests.
The fact that it has a substantial reserve may also be in
attracting additional capital on more favorable terms. In the
other hand, it may be desirable in some cases of stock or other
disposals to have a reserve to meet any unexpected demand.
Under the terms of the plan it is suggested that a reserve be
maintained out of the profits of the company which will be the
primary source of the fund. Most of the latter type, however,
are not retaining a part of their earnings for a reserve fund.
For instance, Colonial Investment Company, a common stock company,
maintains a reserve in its profits which is a substantial part of
its assets. It has been recommended through stock dividends, rights, and in
other ways. American Bank-Trust Company Corporation is the
first agreement provision that the reserve fund be \$1,000,000 per
annum (initially) shall be paid up to a maximum of \$1,000,000 per
annum, but only one or more of these amounts shall be in excess of the
amount of the annual dividend payable for the first three years.
In several instances, however, it is suggested that the investor
will receive his own share of the earnings in cash or in
a stock certificate. The Washington Investor, Inc., a
corporation owned and controlled by the Washington Investor
Company of America, allows for the purchase of "all
shares (that the stock and cash received by the corporation

as management charges) accrue to the holders of the certificates, i. e., the investors."

Owing to their conservative practices, the British trusts show only a moderate rate of earnings on invested capital, but the foreign investor is use to low yields. On the other hand, the best types of trusts often return as high as 15% to 25% on their original capitalization because, as these trusts develop and grow in size, the original stock is frequently sold at several times its cost or par value.

In this country few trusts have been in existence long enough to judge their earning power, particularly as they have not yet weathered a period of declining security prices. Then, too, different methods of calculating earnings render it difficult to make comparisons. Some show earnings on their average capital investment of from 10% to 20%. In a pamphlet entitled "Four Year Analysis of the Financial Investing Co. of New York, Ltd.," the company states that its earnings were 10.70% gross on its average total assets, but that after making all deductions, the rate of net earnings on the \$10. par value shares was 18.42%. Guardian Investors Corporation announced earnings for the calendar year 1928 as approximately 12.2% on the average amount of assets invested and available for investment during the year. General American Investors Co., Inc.,

managed by Lazard Freres and Lehman Brothers, the original sponsors of the company, showed unusually large earning power, the net income, including profits on sale of securities, being equal to about 20% on the average amount of capital invested.* As 1927 and 1928 were years of exceptionally favorable security markets, it is doubtful if the results, in any of these cases, would be equally as good under more normal conditions.

More than one-half of the American investment trusts, it is estimated, are under the control of investment banking houses. Investment bankers are equipped to conduct the sale of investment trust securities with little extra sales effort. Some of them have formed trusts as subsidiaries, while others have cooperated with other banking houses. For instance, Prudential Investors, Inc. is sponsored by Tucker, Anthony & Co.; J. H. Schroder Banking Corp.; and Laird, Bissell & Meeds. Selected Industries, Inc. is under the sponsorship of Stone & Webster & Blodget; C. D. Barney & Co.; Kidder, Peabody & Co.; Lehman Bros.; and Brown Bros. & Co. Kidder, Peabody & Co. has a subsidiary of its own, Kidder Participations, Inc.

Some of the larger trusts are affiliated with banks and trust companies. Old Colony Trust Associates, a Massachusetts Trust organized in May, 1928, has as its directors at the present time twelve members of the Old Colony Trust Company.

*Earnings for 1928

managed by Edward Jones and William Proctor, the principal
members of the company, showed unusually large earnings per
the net income, including profits on sale of securities, being
equal to about 80% on the average amount of capital invested.
In 1927 and 1928 were years of exceptionally favorable security
market, it is doubtful if the results, in any of these cases,
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More than one-half of the American investment funds, it
is estimated, are under the control of investment banks
and trust companies. Investment banks are equipped to conduct the sale of
investment funds and securities with little or no delay.
Some of them have formed trusts as subsidiaries, while others
have cooperated with other banking houses. For instance,
Prudential Insurance Co. is sponsored by Prudential, and
J. M. Johnston Banking Corp., and John J. Johnston & Co.
Colony Investment Co. is under the sponsorship of John J.
Johnston & Co., J. M. Johnston & Co., Fisher, Kennedy & Co.,
Johnston & Co., and John J. Johnston & Co. Fisher, Kennedy & Co. has
a subsidiary of its own, Fisher Investment Co., Inc.
Some of the largest trusts are affiliated with banks and
trust companies. The Colony Trust Association, a New York
Trust organized in 1917, has as its directors at the
present time twelve members of the Colony Trust Company.

*Earnings for 1928

A small, but important group, such as American Founders Group, are controlled by companies or individuals which act in the capacity of consultants or managers and constitute a new profession, the investment counsel. For example, United States Fiscal Corporation sponsors and manages Financial Investing Co. of New York, Ltd., Domestic and Overseas Investing Co., Ltd., Alexander Hamilton Investment Corporation, and Fiscal Bond and Share Corporation.

In Great Britain, trusts are not affiliated with banks or with investment houses or brokers. It is claimed that skillful and disinterested management give the foreign trusts the advantage over the American in that they are independent in making the selection of their securities and free to think in terms of profit for the organization before considering the interests of the house with which they are affiliated. In America, nevertheless, the association with an investment banking house or with a managing corporation has certain distinct advantages. Practically all of these houses or firms have established themselves very firmly in the good graces of the public. They afford specialized knowledge in the field of investment, prevent duplication of effort and expense, and many not only assist in organizing the trust on the most practical basis, but lend financial aid as well.

In general, the same fundamental conditions have caused the development of the trust in this country as they did in Great Britain. The great difference in the development in America has been the rapidity of growth. "In less than a five-year period", says Arthur Winston writing in Forbes for October 15, 1929, "the total resources of investment trusts have grown from less than \$10,000,000 to over \$3,000,000,000. Of this \$1,500,000,000 has been raised during 1929 alone."

The British movement was decidedly much more gradual, and, as a result, more stable than the American. The great variety of American trusts reflects the versatile, progressive character of the American people, With the sharp break in the stock market (October, 1929) the enthusiasm of the public for purchasing investment trust securities has been dampened. The American investment trust which previous to this time has had no trial period is now about to be tested under bear market conditions. The problem presents many phases still to be solved, and it yet remains to be seen what type or types of trusts will emerge as best suited to American practices.

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CHAPTER II

ECONOMIC FACTORS FAVORING THE AMERICAN DEVELOPMENT

CHAPTER II

THEORY OF FACTORS IN THE THEORY OF ALGEBRA

A combination of factors are responsible for the American investment trust development. Until the World War the United States was a debtor nation, and the investor found ample markets at home which were ready to absorb his idle capital. As a country we were primarily interested in developing our own natural resources and in fostering domestic industries, so foreign investments offered small attraction. New issues of securities usually were placed with insurance companies or with a few wealthy financiers. With low wages, the working classes were little concerned as to investment possibilities. Those who did speculate in railroads or on the Stock Exchange in many instances found themselves the prey of powerful magnates. The some score of men who dominated the railroads and controlled the banking facilities were able to manipulate affairs with little regard for the public. It was practically impossible to secure financial information or statistical data before investing, so it was only the man with the gambling instinct who could squelch the fear of a panic every seven years and take a chance.

The War changed the entire situation. A shortage in the supply of labor with an abnormal expansion in industry forced wages up. Corporations earned enormous profits and rewarded their employees with bonuses. People who had never considered putting their money into any institution except the bank or

life insurance companies, bought Liberty Bonds for patriotic reasons and also for investment.

The War left the United States a creditor nation with an excess supply of capital. A period of "big business" followed and consolidations and mergers appeared on every hand. Industry was revolutionized and the worker was introduced to employee-ownership and customer-ownership. Naturally, the American people became investment minded. As the demand for sound securities increased, investment houses, particularly the smaller ones, were unable to meet the requirements of their customers. There were plenty of securities, but it was difficult to regulate the supply. Prices became high, yields low, and the risks greater.

Unscrupulous promoters took money out of the investment market and put it into worthless securities and, in many instances, placed the security dealer in an unfavorable position in the eyes of his client. Secretary Mellon estimated that \$1,000,000,000. a year was lost owing to the amateur investor buying worthless securities to say nothing of losses incurred by marginal speculation in legitimate securities.* To protect these individuals, the various commonwealths passed Blue-Sky Laws, while Better Business Bureaus advertised, "Before You Invest, Investigate", the latter fostering vigorous campaigns to educate the public to the need of exercising due precautions

*World's Work, November, 1927, pages 90a to 95a

Life Insurance Companies, which have been established
in the United States for the purpose of providing

The first of these is the Life Insurance Company of
New York, which was established in 1794. It was the first
of a series of companies which have since been established
in the United States. The second is the Life Insurance
Company of North America, which was established in 1803.
The third is the Life Insurance Company of the United States,
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before parting with hard-earned savings.

The investment trust offered a solution to the investor's and the dealer's problem, and investment bankers, trust companies, and other organizations dealing in securities, stood ready to push the movement. The fact that the public was more or less familiar with the basic principles incorporated in the investment trust idea accelerated the development. Savings banks and trust companies, as well as insurance companies, had taught their clients to save and were able to reward them with a small increase above their investment as a result of the diversification of risk. Mortgage companies, financing companies, and public utility companies, possessing many of the features embodied in the investment trust, were already well known to the small investor to say nothing of the man with plenty of capital.

From the beginning, all kinds and varieties of investment trusts were organized to meet the needs and fancies of the American public. The fact that there were so many to choose from was, in itself, a reason for their growth since there was a type of trust to satisfy everyone. Then, too, these trusts were practically free from supervision and regulation which greatly was in their favor, particularly at the time of their inception.

Before passing this bill, the committee

The committee first offered a resolution to the House

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The factor of greatest consequence in stimulating the rapid expansion which took place in this field was "Coolidge prosperity" which commenced a reign of optimism and an uninterrupted bull market. The stock exchanges moved upward and securities continued to advance with but one or two brief interruptions. Advertisements and literature of every description appeared to demonstrate to the public that the profits of industry belong to the common stockholder after the bondholder and the owner of the preferred stock have received their limited share. Conservative people who had regarded bonds as the only safe and sane proposition for the employment of their surplus funds became enthusiastic over common stocks, particularly in view of the declining prices in bonds and preferred stocks. The sponsors of the investment trust found themselves in an excellent position to take advantage of this situation.

The fact that the principles underlying the investment trust idea are economically sound is still another reason for the favorable attitude the public assumed toward this type of financial institution. The arguments in its favor are as follows: (1) It offers the investor a chance to pool his capital and participate in the profits of a large number of securities. (2) Instead of acting single-handed and owning a few securities, he obtains a greater degree of safety by the principle of diversification which the trust employs.

(3) By means of its large resources and managerial skill, the trust can purchase many of the world's best securities which the ordinary investor hesitates to buy because the unit price is too high, particularly when it comes to purchasing in large lots. (4) While the individual investor is more likely to buy in large lumps when prices are high, the investment trust purchases securities over a period of time and thus tends to average out the cost of these. This is decidedly to the investor's advantage. (5) With the responsibility of selecting securities transferred to the investment trust, the investor is saved time, expense, and money. The individual has not the means or the facilities to make proper investigations; accordingly, he is often a speculator instead of an investor. Because the investment trust buys in large quantities while the individual makes small purchases in comparison, the premiums and commissions are reduced both in buying and in selling. (6) Aside from the costs of management, the investment trust places the small investor on the same basis as the large buyer.

Different types of investment trusts advertise numerous other economic advantages, particularly those afforded by their individual trust or by those trusts adhering to similar practices. Some of these will be considered in the following chapters.

CHAPTER III

CLASSIFICATION OF INVESTMENT TRUSTS

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Investment trusts may be classified in a variety of ways, the various classifications overlapping one another because there have emerged such a great number of trusts adopting various principles and practices that no clear-cut lines can be drawn.

Based on the management factor, that is the investment policy of the trust in respect to the purchase and sale of securities, there are, broadly speaking, two kinds of trusts:--those which buy for the "long pull" and are known as fixed trusts or limited management trusts, and those which operate for a "quick turn" and are more popularly termed the management type. The former, sometimes compared to a mutual investment club, usually publish a list of their holdings--"gilt-edged" securities--and operate with a closed portfolio. The latter may pursue the other extreme and operate as a "blind pool", asking the investor to place his confidence in the management.

The management type of trust, in some respects, more closely resembles the European trusts as capital is usually raised by the sale of preferred and common stock and bonds or debentures. This type of trust owns outright the securities which it buys with the capital thus raised, and it stands responsible to the stockholders who hold its stocks and bonds in the same degree that any corporation does. The stockholder may sell these shares of the investment trust which he has purchased in the

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The management type of trust, in some respects, more precisely resembling the corporate trust as explained in the preceding chapter, is of a more varied and common stock and bond or combination. This type of trust owns outright the securities which it deals with the capital fund raised, and is usually responsible to the shareholders who hold the shares or units in the same manner that any corporation does. The shareholder may sell their shares of the investment trust which he has purchased in the

market just as he would dispose of the securities of any corporation.

From the standpoint of structure, as a general rule, the management type of trust, according to John Francis Fowler, is a "Statutory" trust. This writer thus defines his term: "A statutory trust buys securities for its own account and issues its own stock or bonds to investors. It is called statutory because the investment trust relationship exists by virtue of legislative act. Unincorporated investment trusts operating along similar lines are not strictly statutory, but they are to all intents and purposes the same and are for that reason included under this definition."*

Unlimited discretion naturally gives the management type of trust an opportunity to speculate more, the opinion being that with strong, farsighted managers profits will be greater. While the British follow this practice of giving their managers the broadest powers, it is the custom here, in order to create public confidence and facilitate the sale of securities, to set up certain, specific management restrictions. These pertain to the kind and quality of securities which may be purchased for the investment fund, to the maximum proportion of any one security or class of securities which may be held, and to the geographical distribution of these securities. Some authorities

*"American Investment Trusts", John Francis Fowler, Jr., page 31

might just as well depend on the accuracy of any one
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contend that such restrictions hamper the managers in making the most of favorable situations and that they afford no great protection to the shareholders in that dishonest executives can easily evade almost any regulations. On the other hand, there is a possibility that they may restrain the reckless and less capable who have been known to dissipate funds with less regard for the investor than those interested in their own personal enrichment.*

Following the customary British practice, the management type of trust generally holds to a program of wide diversification. As yet, American trusts have not specialized in foreign investments, although there are certain exceptions such as the American Founders Group and the Guardian Investors Corporation. The latter company in its prospectus states: "The portfolio includes a wide diversity of bank, industrial, rail, public utility, municipal and Government issues carefully selected in various markets of the world."

Trusts which operate internationally feel that they can take advantage of difference in the prices of securities in both domestic and foreign markets. When times are unfavorable for investing at home, they can place a larger proportion of their funds abroad. Trusts practicing the policy of broad diversification must employ men of exceptionally high calibre and

*For provisions as to standards of value and diversification, See Appendix, page 8a

content that such restrictions hinder the progress in making
the most of available resources and that they add to the
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For provisions on the standards of value and diversification,
see Appendix, page 22

unusual intelligence. Since the market decline several companies have emphasized the fact that their portfolio contains bonds of foreign governments and corporations. Others have advertised that the companies behind their holdings have international interests. For instance, Incorporated Investors states that the thirty great American corporations in which it invests have under their control 183 separate organizations in 34 different countries.*

The advantages of broad diversification are (1) as stated, the opportunity to buy in security markets when prices are depressed; (2) greater safety owing to the wide spread of risk; (3) the fact that in case of misjudgment on the part of the management not as much harm can be done as with limited diversification, because with investments widely diversified, the holdings in each issue are relatively small. The disadvantages are (1) the possibility of an unbalanced distribution; (2) the expense of management and research; (3) the tendency towards average results because there are so many representations; (4) the possibility that managers will squeeze in "pet issues".

For the most part, trusts which are classified as "fixed" and "managed list" and are frequently referred to as the "American" in order to distinguish them from the British corporate type, adhere strictly to the theory that diversification should

*The Incorporated Investor, Vo. II, #10

unusual intelligence. Among the various factors which have contributed to the fact that their portfolios contain shares of foreign governments and corporations. Others have advised that the companies behind their holdings have international interests. For instance, International Investors advise that the thirty great American corporations in which it invests have under their control 122 separate organizations in 25 different countries.

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The International Investor, Vol. 11, No. 11

be limited in order to permit of effective supervision. American Basic-Business Shares Corporation, a fixed trust, after a "thorough-going research covering a long period", and after studying, analyzing, and comparing 1,105 corporations selected 30 companies to "represent a balanced partnership in America's prosperity." Irving Investors Management Company, Inc., a managed list trust, restricts the investment of its funds, to "such extent as it may be invested in common stocks", to those of 40 or less corporations.

The fixed trust is created, as a rule, at the initiation of a banking house from which the trust is often indistinguishable. Several people, for the most part persons closely affiliated with the banking house, form a corporation to manage the trust fund under indenture with a trust company (usually the same banking house or trust company creating the corporation).

The corporation is essential to provide an initial expense fund in order that the trust may carry on the necessary details of organization and sales promotion before commencing business. This managing concern usually makes no permanent contribution to the fund and receives a stipulated fee for its services, rather than depending on profits derived from trading on the equity. As the trusts are not organized as corporations, no new security is created and there is but one class

be limited in order to permit of effective supervision. And
can be a business operation, as a first step, after a
"rough-going" research covering a large field, and after
analyzing, analyzing, and comparing 1,000 corporations selected
to determine the "prospects" of a balanced partnership in investment
activity. "Living Investment Management Company, Inc., a
company that first, restricts the investment of its funds, to
"good" assets as it may be invested in common stocks, the issue
of an of funds corporations.
The three funds in question, as a rule, at the initiation
of a banking house, first of all the first in other industries.
The "good" people, for the most part persons closely affili-
ated with the banking house, form a corporation to manage the
fund that under management with a first and only, usually the
same banking house or trust company operating the corporation.
The corporation is usually so named as to indicate an
asset that is a first step in the first step in the management
of the corporation and other positions before corporation
management. This corporation usually makes no payment
contribution to the fund and receives a stipulated fee for its
services, rather than depending on profits derived from the
fund on the capital. As the assets are not operating as a whole
fund, no new assets are added and there is not one share

of participation, namely, trustee's shares.

The majority of fixed trusts, in reference to their legal form, fall into a class which John Francis Fowler, Jr. terms "contractual" in contrast to the management type or "statutory". "A contractual trust", according to this authority, "is one wherein the securities are purchased not for the account of a company or association, but for the account of an investment fund, deposited for the benefit of investors. The securities issued in this case are neither stock nor bonds but are evidence of participating interests in the fund. The name contractual is given to this form of investment trust because it exists by virtue of a legal agreement to which the participants are parties."*

Trusts which are strictly of the fixed rigid type practically eliminate the management factor. The directors are concerned primarily with the selection of the original securities which go into the fixed portfolio. These securities, generally the common stock of a number of well-known corporations,--"A fixed investment in America's prosperity" as American Basic-Business Shares Corporation advertises--are assigned as collateral to a trustee.

Against this assignment, certificates, called trustee's shares are sold to the public. These, in the case of a fixed

*American Investment Trusts", John Francis Fowler, Jr., page 31

of participation, namely, the right to share in the
profits of the business, in proportion to their share
of the capital. This right is known as the right of
"participation" in contrast to the management, known as "control".
The management is exercised by the directors, who are
elected by the shareholders. The directors are
responsible for the management of the business and
for the payment of the dividends. The shareholders
are entitled to a share of the profits of the business
in proportion to their share of the capital. The
shareholders are also entitled to a share of the
assets of the business in the event of liquidation.
The shareholders are also entitled to a share of the
profits of the business in proportion to their share
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trust, are more frequently issued by the bank or by the investment house than by the corporation. For instance, the prospectus of the American Industries Participation Shares reads, "Certificates issued by Fidelity Trust Company, Detroit, Depository", and then the statement follows that the Industrial Securities Corporation is the depositor. The certificate is the receipt for each shareholder's pro rata participation in the underlying stocks.

In some cases the portfolio comprises all forms of American securities covering the stocks of railroads, oil companies, utilities and quasi-utilities, as well as industrials. These are frequently treated as a "unit" and against each group a specified number of shares is issued, usually one thousand with no par value. To quote again from American Industries Participation Shares: "Each American Industries Participation Share represents a 1/1000 ownership in a unit of one hundred and seventy shares of stock of fifty railroad, public utility, and industrial corporations, deposited with and held by the Fidelity Trust Company".

After the original selection of securities is made, it is usually provided that additional stock of the same kind may be added if the trust wishes to make further investment, but, in most cases, only under certain specified conditions. Also,

in the case of recapitalization or reorganization of any of the companies whose securities make up the portfolio, the holdings may be reduced and substitutions made. For example, the agreement of the Automotive Participation Shares reads, "Additional blocks of one thousand Automotive Participation Shares are issued only whenever the Depositor deposits, with the Fidelity Trust Company, additional shares of stock of the above (referring to list of twelve companies represented) automobile and truck companies, identical in character and proportion, plus cash to equal the accumulated earnings held by the Depositary as security for each of the outstanding one thousand Automotive Participation Shares."

Regarding substitution privileges the following considerations are set forth: "No substitution may be made in the stocks or in the number of shares constituting a unit deposited as security for each 1,000 Automotive Participation Shares issued, except in case of recapitalization or split-up of shares of any of the companies or an exchange of stock, occurring by reason of merger, consolidation or sale of property of any of the companies, or stock dividends in excess of 20%. In any such case, the stock unit held by the Depositary as security for 1,000 Automotive Participation Shares, is simply changed, under the terms of the Depositary Agreement, to take account of the

split-up or exchange of the particular company."*

It is the opinion of those who advocate the fixed trust that with high grade securities constituting the portfolio any small losses which might occur in the event that some of the securities depreciated would not be as serious as the manipulation of the funds by unscrupulous promoters. It is conceded that with good management the profits are generally greater, but that since the speculative element is also greater, the fixed trust has the advantage.

Aside from the management factor, the fixed trust, it is claimed, offers several distinct advantages. First, the simplicity of its financial set-up makes it easier to explain its principles to the public who buy the shares. Second, shares are usually offered at a low price. Third, the securities in back of the trust are, as a rule, the best known stocks, being listed on the New York Exchange and rated highly by one of the large financial services. Fourth, in most cases shareholders who have purchased one unit, usually 1,000 shares, may have the privilege of conversion. In other words, they may present their shares to the trustee and receive all the securities underlying the unit as well as any accumulated dividends and their proportionate interest in any of the earnings and in the cash and reserve assets. Or, should the holders prefer

*Quotations taken from the prospectus of the Trust

cash, it is customary to arrange for cash redemption based on the market value of the deposited securities. A small fee is necessarily charged the shareholder who exercises the conversion or cash redemption privilege. Fifth, the purchaser of fixed trust shares knows exactly what he holds and they are easier to evaluate. Banks, according to a survey made by the Bureau of Business Research of New York University, favored the fixed type as collateral.*

Nevertheless, the rigid type of trust is not popular today, although as prominent an economist as John Moody expresses the view that it is "the best type of investment trust, without any question." The decided tendency is to permit the managers to make substitutions of the underlying securities. William Howard Steiner calls this "offshoot of the fixed type", the managed list trust.**

In the latter instance, fixed trust methods are departed from in varying degrees. The corporation organizing the trust which in the case of the rigid type acted as depositor and was of little managerial importance, often assumes control. Frequently, however, a separate management organization is created. For instance, Colonial Investors Shares, a common stock investment trust, is managed by Colonial Investors Corporation of Baltimore, deposits being made with the Union Trust Co.

*For figures, see "Investment Trusts" by William Howard Steiner, page 255

**page 260, *ibid.*

of Maryland, Trustee. The company in its trust indenture directs "the trustee to sell any one or any of the underlying stocks whenever it may be deemed necessary or advisable to do so in order to avert a capital loss, or a cessation or substantial decrease in dividends, or to protect a capital gain."

United States Shares Corporation, the only trust of this type which has constructed a group of trusts under one management, according to its prospectus has "ten separate investment funds, eight of which are indenture trusts of the limited management type and two of which are funds subject to unrestricted management." The management organization is "independent from control or domination by any bank, investment banking house, or other outside interest." It constantly supervises the portfolio and authorizes the trustee to sell over-valued holdings and substitute others of more promise.

In the case of the managed list trusts it is necessary that the corporation have competent directors as the restrictions placed on investment are fewer and the powers of substitution broader than those allowed by fixed trust indentures. Since the managed list trust, as a rule, is independent of the depositor corporation, that is the bank or the investment banking house, it has to devote more attention to sales promotion. In some instances, the custom is for the trust to set up its

of England, Scotland, and Wales. The company in the United States
has been formed to sell any one or all of the underlying
securities, and it may be found necessary or advisable to do
so in order to cover a capital loss, or a cessation or reduction
of business in England, or to protect a capital gain."

United States shares corporation, the only trust of which
type which has been organized a group of trusts under one manage-
ment, according to the suggestion of the United States
trusts, which of which are American trusts of the United States
trust type and two of which are trusts subject to withdrawal
management. The suggested corporation is independent from
control or domination by any bank, investment banking house, or
other outside interest. It constantly oversees the portfolio
and authorizes the interest to sell or re-sell holdings and
substitute others of equal value.

In the case of the United States trust it is necessary
that the corporation have complete authority in the matter
of the management of the investment, and the power of sub-
stitution of assets shall be given to the trust.
Since the management of the trust is independent of the
depositor not a trustee, but the bank or the investment bank
in power, it has to devote more attention to sales promotion.
In some instances, the corporation is not to be

own sales subsidiary. For the most part, however, the general structure of the managed list trust and the underlying principles closely resemble the fixed trust.

There are numerous variations of both the managed and fixed types. Somewhat similar to the fixed trust in that a fund is created and in that the device of an approved list of stocks is used, is the Massachusetts Investors Trust. This, however, is in its legal form of the corporate type in that it is a common law trust, incorporated under the laws of Massachusetts as a voluntary association. In this State, investment trusts fall under the General Laws Relating to Corporations of the Commonwealth. Chapter 182, Section 1, provides, "The following words, as used in this chapter, shall have the following meanings: 'Association', a voluntary association under a written instrument or declaration of trust, the beneficial interest under which is divided into transferable certificates of participation or shares."

A few other investment trusts have chosen to adopt this form as the Aldred Investment Trust and the Old Colony Investment Trust. The former trust is peculiar in that each \$1,000 shareholders' debenture is accompanied by ten common shares in the Trust. Management is vested in five members who control and manage the Trust property. All of these trusts emphasize the importance of management.

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der the general laws relating to corporations of the Commonwealth.
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A few other investment trusts have chosen to adopt this form
as the Massachusetts Investment Trust and the Old Colony Investment
Trust. The former trust is located in that state and has
approximately 100,000 shares outstanding. It is managed by ten persons, seven of
the trust. Management is vested in five members who control
and manage the trust property. All of these trusts maintain
the importance of management.

Old Colony Investment Trust makes the following provisions respecting the powers and duties of trustees: "The Trustees shall hold title to, and have the absolute control and management of all the property at any time belonging to this Trust, subject only to the specific limitations contained in the Trust Agreement. They may invest and reinvest the Trust Fund in their uncontrolled discretion, it being the intention to give them the utmost freedom in the choice of investments, in accordance with the terms of the Trust Indenture."*

Nevertheless, although these trusts are of the management type and are of corporate form, they issue shares against a fund in a manner similar to the fixed trusts. The advantage claimed for the common law trust is that it is not required to file a report as the ordinary corporation is obliged to do and it is free from a number of other statutory requirements which are made of corporations. On the other hand, the public is not as familiar with the common law trust as it is with the corporation. Moreover, the life of the trust is limited, usually for the term of twenty-one years after the death of the last surviving trustee while the corporation has no limit as to time. As corporation law is more standardized, most trusts have avoided the common law form.

Another modification of the fixed type are trusts like the

*"Investment Trusts", pamphlet published by Old Colony Corporation, page 12.

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respecting the powers and duties of trustees: "The trustees shall hold title to, and have the absolute control and management of all the property at any time belonging to this Trust, subject only to the specific limitations contained in the Trust agreement. They may invest and reinvest the Trust funds in their uncontrolled discretion, it being the intention to give them the utmost freedom in the making of investments, in accordance with the terms of the Trust instrument."

Nevertheless, although these trustees are of the management type and are of corporate type, they have powers against a fund in a manner similar to the fund trustee. The advantages claimed for the common law trust is that it is not restricted to the same extent as the ordinary corporation is obliged to do and it is free from a number of other statutory requirements which are made of corporations. On the other hand, the public is not so familiar with the common law trust as it is with the corporation. However, the life of the trust is limited, usually for the term of twenty years, after the death of the last surviving trustee where the corporation has no limit as to time. As corporations are in some respects, more flexible than

avoided the common law form.

Another modification of the trust form are trusts for

Investment Trusts, sometimes provided by old Colony corporations.
Page 12.

State Street Investment Corporation, the Irving Investors Management Company, Inc., and the Inland Investors, Inc. They are of corporate type and organized as corporations, but they offer the investor shares in a fund and issue only one class of security, usually common stock, although in one or two cases bonds or trust certificates are issued.

There remains still another method of classifying the investment trusts and this is in reference to the securities which go to make up the contents of the portfolio. If the investment fund consists of all kinds of securities--sometimes internationally and often inter-industrially diversified--it may be termed a "general" trust. This type of trust, in most cases, operates as a "statutory" trust, issuing its own stocks and bonds and buying bonds as well as stocks of various descriptions. As John Francis Fowler expresses it: "The theory of the general trust is that all kinds of securities have a proper place at one time or another in the investment fund." *

It is necessary, too, that the general trust be of the management type so that changes in the portfolio may be made without delay as favorable opportunities arise. A few of the outstanding trusts of the general type are American Capital Corporation; General American Investors Co., Inc; British Type Investors, Inc.; Second International Securities Corporation;

*"American Investment Trusts", Fowler, page 94

United States Foreign Securities Corporation; Standard Investing Corporation.

In contrast with the general trust is the type which places emphasis on common stocks, bonds, the stocks of one particular field of industry, or the securities of banks or other financial institutions. These investment trusts may be termed "specializing". Their structure is usually "contractual", and they are likely to operate with closed portfolios or a limited list of stocks from which the management may make selections.

Among the different kinds of specializing trusts, those dealing in bonds are the fewest in number and of comparatively the least weight. Appeal is made to the conservative investor looking for a steady, cash income. These trusts are generally organized as common law trusts, issuing certificates of "beneficial interest" or "bondshares".

The portfolio is usually represented by both domestic and foreign securities of a high-grade nature as in the case of the Bond Investment Trust, controlled by Harris, Forbes & Company, Inc., Boston, Massachusetts, or it may be limited to one class of bonds as is Foreign Government Bond Trust Certificates which was created by the Financial Investing Company, Ltd., a general management investment trust

incorporated in 1924. As illustrated, bond investment trusts usually are conducted in connection with a bank or a large investment trust of the general type.

The reasons why financial stocks have been given preference by certain sponsors of investment trusts is aptly summarized by John Francis Fowler, Jr. Most of the prospectuses of the various trusts of this kind offer practically the same arguments.*

"(a) Banks and insurance companies are themselves quasi-investment trusts, since their assets in large part are comprised of securities. Insurance companies, except in the field of life insurance, buy stocks as well as bonds and are thus in a position to take advantage of the gains to be derived from common stocks.

"(b) The management problem is simplified for the financial stock trust, since the real work of investment is carried on by highly competent executives of banks and insurance companies.

"(c) In addition to their income from investments, banks and insurance companies can count upon a substantial profit from their banking operations, on the one hand, and their insurance activities, on the other. These operations are unusually safe because credit and insurance risks have been reduced to a scientific basis.-----

"(d) Bank and insurance stocks show steady and enormous gains in value over the past decade or two, and are counted upon to show further increases by reason of the stable and necessary character of their business.-----

"(e) Being usually priced at several hundred dollars apiece, bank and insurance stocks are out of reach of the ordinary investor unless made available to him through the medium of the investment trust.-----

"(f) Banks and insurance companies are all under some

*For complete discussion see "American Investment Trusts", John Francis Fowler, Jr., page 103-104

Investment in 1954. The investment in 1954 was \$1,000,000, which was a record for the company. This was due to the fact that the company had a very successful year in 1953, and the investment was made in the form of a loan to the company.

The reason why financial ratios have been given preference by certain members of investment circles is that they are easy to understand and compare. However, they are not always the best indicator of a company's financial health. The various ratios of this kind often give only a partial picture of the company's financial position.

(a) The first ratio is the current ratio, which is calculated by dividing current assets by current liabilities. This ratio is used to measure a company's ability to pay its short-term debts. A ratio of 1.0 or higher is generally considered to be a good sign.

(b) The second ratio is the debt to capitalization ratio, which is calculated by dividing total debt by total capitalization. This ratio is used to measure a company's financial leverage. A ratio of 0.5 or lower is generally considered to be a good sign.

(c) The third ratio is the price to earnings ratio, which is calculated by dividing the market price per share by the earnings per share. This ratio is used to measure a company's valuation. A ratio of 15 or lower is generally considered to be a good sign.

(d) The fourth ratio is the price to book value ratio, which is calculated by dividing the market price per share by the book value per share. This ratio is used to measure a company's valuation. A ratio of 1.0 or higher is generally considered to be a good sign.

(e) The fifth ratio is the price to cash flow ratio, which is calculated by dividing the market price per share by the cash flow per share. This ratio is used to measure a company's valuation. A ratio of 10 or lower is generally considered to be a good sign.

(f) The sixth ratio is the price to sales ratio, which is calculated by dividing the market price per share by the sales per share. This ratio is used to measure a company's valuation. A ratio of 1.0 or higher is generally considered to be a good sign.

(g) The seventh ratio is the price to operating income ratio, which is calculated by dividing the market price per share by the operating income per share. This ratio is used to measure a company's valuation. A ratio of 10 or lower is generally considered to be a good sign.

form of public supervision, which promotes their stability."

Financial trusts became popular before the market break as a result of the spectacular rise in bank stocks and because of the attractiveness of insurance stocks for investment. Most of the trusts adopted the contractual form, issuing participation shares. For instance, Century Shares Trust, a Massachusetts trust created under a declaration and agreement of trust, is typical of the majority of these institutions, while, on the other hand, a few, such as the Eastern Bankers Corporation, are organized as corporations and issue both common and preferred stock.

Portfolios, in many cases, are limited to the securities of the banks of one city or district, as for instance, Detroit Participation Shares which embraces the leading banks and trust companies of the city of Detroit. Bank Stock Trust Shares, Series C-3, an investment trust established and managed by the United States Shares Corporation, consists of units made up entirely of the shares of New York banks. The portfolios of the investment trusts dealing in insurance stocks center largely about the older, established insurance companies, investments being made in common stocks for the most part. Insuranshares Corporation and Old Line Insurance Shares are typical illustrations.

form of public corporation, which promotes the stability.

Financial firms become generally known the market place

as a result of the widespread rise in bank stocks and bonds

of the generalization of insurance stocks for investment.

of the firms engaged in commercial work, including retail-

business houses. For instance, usually share firms, a mass-

business firms engaged under a decentralized and organized

form, is typical of the majority of the financial firms, while

on the other hand, a few, such as the American Express Company

also, are organized as corporations and have not received and

the first stock.

Portfolios, in many cases, are limited to the securities

of the banks of one city or district, as for instance, Pacific

Participating shares which entitles the holding banks and first

companies of the city of New York. Bank stock firms share

capital of the city of New York and are managed by the

United States National Corporation, composed of not less than

half of the shares of New York banks. The portfolio of

the investment firms is usually in insurance stocks and

largely about the same, including the same companies.

Investment firms are in common stocks for the most part.

Investment firms are in common stocks and the same firms share

capital of the city of New York.

Some trusts deal exclusively or primarily with the issues of a certain field of industry. Many of these single industry trusts concentrate on the securities of public utility corporations. Illustrative of this group is the Power & Light Securities Trust of Massachusetts, created in January, 1926 under a declaration of trust. Most of the specializing trusts, however, are organized as corporations and issue several classes of their own securities. They are similar in structure and in policies to the American European Securities Company and the General Public Service Corporation.

The usual familiar arguments are offered for specializing in public utilities, namely, (1) important and essential service rendered the public and sometimes the government by these corporations; (2) operation under monopolistic, rather than competitive, conditions; (3) special legal and franchise privileges; (4) wide diversification of risk; (5) rapid expansion in many of these enterprises such as the gas and electric industries; (6) cash business; (7) municipal, state, or federal supervision.

For the most part, investment trusts specializing in public utilities distribute their investments so as to include bonds and preferred stocks as well as common stocks. This is done to take care of market depressions. During the early

Some trusts deal exclusively or primarily with the business in a certain field of industry. Many of these single industry trusts concentrate on the ownership of public utility corporations. Illustrative of this group is the Trust for Light and Heat, created in 1902. Most of the specialized trusts, however, are organized as corporations and have several classes of stock. They are similar in structure and in policy to the American Telephone and Telegraph Company and the General Electric Company.

The same financial principles are applied for investing in public utility, namely, (1) investment and ownership are also handled by the public and national governments; (2) operation under government; (3) special bond and preferred stock; (4) the distribution of dividends; (5) the rapid expansion in many of these enterprises such as the gas and electric industries; (6) cash dividends; (7) municipal, state, or federal ownership.

For the most part, investment trusts specializing in public utility distribute their investments so as to include bonds and preferred stock as well as common stock. This is done to take care of certain requirements. During the early

part of 1929, the prices of public utility stocks soared to unheard of heights. In the market crash which followed, they were the hardest hit and many of the investment trusts dealing in these securities suffered likewise.

A few specializing trusts invest primarily in the stocks of one particular industry. Illustrations of these are Standard Oil Shares Incorporated, Chain Store Investment Corporation, and Metal and Mining Shares, Incorporated. Like investment trusts specializing in public utilities, they do not have the advantages of interindustry trusts. Although they claim wide diversification, naturally their field of operation is limited. They do not have nearly as many factors in their favor as the trusts which specialize in common stocks or bonds or financial stocks.

By far the most important group of specializing trusts are those which invest primarily in common stock. During the period when the investment trusts were developing, this country was in a so-called prosperity era. The prices of bonds and preferred stocks tended to decline, while common stocks showed unusual appreciation. Many investment trusts came into being with the intent of benefiting from this situation.

The trusts took the most optimistic side of the picture and painted the future in glowing colors. Analytical and

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of one particular industry. Illustrations of these are
Standard Oil Trust Incorporated, which invests in
petroleum, and Metal and Mining Trust Incorporated. Like in-
vestment trusts specializing in public utilities, they do not
have the advantage of interlocking interests. Although they
often have diversified interests, naturally their field of operation
is limited. They do not have nearly as many factors in their
favor as the trusts which specialize in common stocks or bonds
or financial assets.

For the most part, trusts of specializing trusts
are those which invest primarily in common stocks. During the
period when the investment trusts were developing, it is not un-
likely that in a so-called "bull market" etc. the prices of stocks
and preferred stocks tended to decline, with common stocks
showing unusual appreciation. Many investment trusts came
into being with the intent of benefiting from this situation.
The trusts took the most optimistic view of the future
and raised the price in the market. They were not

statistical studies covering the past performance of the underlying securities constituting the portfolio were presented to persuade the public of the profits to be derived from the common stock trust. This literature, together with the advertising which supplemented it, accomplished its purpose, and the investor was ready to buy almost any new issue.

Dwight Rose of Scudder, Stevens & Clark, Investment Counsel, in an address before the joint meeting of the American Statistical Association and the American Economic Association in December, 1928, expressed the situation thus: "The great army of American investors, influenced by the able arguments in defense of the common stock, have had a taste of large profits and their appetities have been whetted for more. The courageous ones have realized profits during the last four years ranging anywhere from 100 per cent to several thousand per cent. The imagination of American investors has been awakened to tremendous possibilities in the future and there has developed a sort of hero worship for the common stock."* On this same occasion, Mr. Rose cautioned that it was time for a "temporary application of the brakes."

The evidence Mr. Rose presented against the common stock theory, particularly with the stocks at the levels of December, 1928, probably did not have much weight at that time with

*Reprinted in pamphlet form by Harper Brothers, December 16, 1929

many of the sponsors of the investment trusts. To deal in common stocks, new trusts continued to be organized as general management, limited management, fixed, and, in fact, as of every type and description. For the most part, they were set up as contractual trusts. Investments were made primarily in securities listed on the New York Stock Exchange with portfolios exceptionally well diversified and balanced.

The arguments expressed for specializing in a portfolio composed exclusively of common stocks are almost too well known to bear repeating. Briefly summarized they are as follows: (1) A diversified group of well selected common stocks is not only more profitable but as safe as a similar group of bonds; (2) An investment in common stocks gives the investor an opportunity to share in the growth and prosperity of the United States; (3) Common stocks keep in step with the purchasing power of the dollar while bonds do not.

Typical of the common stock trust are American Basic-Business Shares Corporation, American Trustee Share Corporation, North American Trust Shares, all of the fixed type; American Securities Shares, Incorporated Investors, Irving Investors Management Company, representing the limited management type; General Public Service Corporation of the general management type.

It is impossible to set up any strict classifications. For instance, the General Public Service Corporation deals in the common stocks of public utility corporations and may be considered as a single industry trust. Since it is organized as a corporation, it is also a statutory trust. American Securities Shares is a contractual trust. Its portfolio is widely diversified, consisting of common stocks "selected from the leading industrial, public utility and railroad companies of America."* Provision, however, is made for investing in high-grade bonds and collateral loans at the discretion of the managers. Accordingly, it is not a trust of the fixed, rigid type, but rather of the managed list.

Each investment trust has a theory all its own. The reason usually given for adhering to certain principles is that the greatest profits are to be secured by operating in the manner advocated. Then again, the American investor, with his independent ideas, is likely to have his own preferences. The variety presented gives him an opportunity to pick and chose.

The chapter following will discuss in detail the outstanding characteristics of a number of the specializing trusts.

*Prospectus of the Trust, page 1

it is impossible to see any other alternative.
For instance, the General Public Service Corporation itself is
the common vehicle of public utility corporations and may be
considered as a single company. Since it is organized
as a corporation, it is also a distinct firm, American
accounting system is a conventional type. The corporation is
highly diversified, consisting of various groups, including
the leading industrial, public utility and railroad companies
of America. However, it is not the largest in
high-grade bonds and preferred loans at the disposal of
the manager. Accordingly, it is not a firm of the kind,
which type, but rather of the manager type.
Each independent firm has a theory all its own. The
theory usually gives the manager a certain principle is
that the manager should aim to be successful by operating in
the manner indicated. This again, the American manager,
with his independent mind, is likely to have his own theory
ness. The manager's theory is his own responsibility to pick
and choose.
The chapter following will discuss in detail the character-
istic characteristics of a number of the specialized firms.

CHAPTER IV

SPECIALIZING INVESTMENT TRUSTS

SECRET

SECRET

Public Utilities

AMERICAN EUROPEAN SECURITIES COMPANY

American European Securities Company, a statutory trust dealing in public utilities, was organized in 1925, under the laws of the State of Delaware, to take over the assets and liabilities of a Swiss corporation, Societe Financiere pour Entreprises Electriques aux Etats Unis (Investment Company for Electrical Enterprises in the United States).

A summary of the manner in which the common and preferred stock has been authorized and issued is given by the Company as follows:

Authority for and Purpose of Issue
Common Stock
Summary

<u>Date of Authoriz- ation</u>	<u>Authorized for Issuance</u>	<u>Issued</u>	<u>Issue Price</u>	<u>Purpose of Issue</u>
Oct. 20, 1925	15,000	15,000	\$00.20	To organizers for cash.
Oct. 20, 1925	20,000	.....	.....	Reserved against Option Warrants.
Feb. 26, 1926	85,000	85,000	28.86	For Property.
April 27, 1928	30,000	30,000	50.00	Cash for working capital.
May 15, 1929	150,000	130,000	.....	Split-up (20,000 shares reserved against Option Warrants)
June 21, 1929	25,000	25,000	63.722	Cash for working capital.
	<u>325,000</u>	<u>285,000</u>		

Preferred Stock
Summary

<u>Date of Authoriz- ation</u>	<u>Authorized</u>	<u>Issued</u>	<u>Issue Price</u>	<u>Purpose of Issue</u>
Oct. 19, 1925	60,000	.....	.....	.....
Feb. 26, 1926	.. ...	30,000	\$100	For Property.
Jan. 7, 1929	.. ...	20,000	96	Cash for working capital.
May 15, 1929	40,000	.. ...	.....	.....
	<hr/> 100,000	<hr/> 50,000		

Funded Debt
Collateral Trust 5% 1958
Summary

<u>Date of Authoriz- ation</u>	<u>Authorized</u>	<u>Series</u>	<u>Issued</u>	<u>Purpose of Issue</u>
Dec. 22, 1927	\$2,000,000	Series "A" due Jan. 1, 1958	\$2,000,000	Cash for work- ing capital
April 27, 1928	2,000,000	Series "B" due May 1, 1958	2,000,000	Cash for work- ing capital

As noted above, certain organizers of the Company purchased 15,000 shares of common stock at 20¢ per share. They furthermore were sold option warrants for \$1,200, entitling each holder to purchase, as he might wish, any number of the 20,000 shares of common stock set aside for the purpose at \$25.00 per share. In view of a split up of the outstanding Common Stock and pursuant to the terms of the original warrants, in June, 1929, the number

of shares of common stock subject to option warrants was increased to 40,000 shares at \$12.00 each. During the latter half of the year, rights were exercised on 19,500 option warrants at this price; at the same time, 75,000 additional shares of common stock were sold to bankers, making the amount outstanding 354,000 shares.

The present Board of Directors consisting of twelve members has representatives from both Swiss and American investment houses and public utility corporations. The management of the Company is entirely in the hands of this Board, each Director receiving \$1,000 a year compensation. In the event that the common stock dividends should be more than \$1.00 a share, this compensation is to be increased to \$2,000 a year.

Although according to its charter the Company has broad powers "to acquire, hold and to deal in securities of all kinds and to take part in financial transactions permitted by law", it has for the most part invested primarily in the common and preferred stocks of the leading power and light companies of the United States, and, in addition, in a few industrials and miscellaneous stocks. In May, 1929, the book value of all common and preferred stocks in the portfolio was \$15,579,429.97 against a market value of \$24,861,508.75. December 31, 1929, the book value stood \$21,064,858.26 with the market value at \$25,182,339.13. This falling off was due to the October break.

From May to December, 1929, there have been some changes in the underlying securities, and several companies having been added to the list and a few, particularly among the public utilities, dropped.

The investment in bonds, as of May 31, 1929, showed a par value of \$824,000.00 with a book value of \$761,851.67 and a market value of \$712,620.00. As of December 31, 1929, the par value was \$838,000.00; book value, \$761,100.48; market value, \$685,230.00. One Company was dropped and \$39,000 worth of American Telephone and Telegraph Company, 4 1/2% convertible gold debentures, due 1938, added.

Until the recent decline, the progress of the Company was particularly gratifying. In December, 1926, cash on hand was \$124,093.40; in 1927, \$17,728.62; in 1928, \$10,046.37. These figures seem to indicate that the company had most of its available funds invested previous to the market break in order to take advantage of the opportunities afforded by the spectacular rise in public utility stocks. As of December 30, 1929, the cash on hand was in excess of that of December, 1926, amounting to \$317,817.92.

While for 1928 the sale of securities netted a profit of \$1,647,005.80, 1929 showed only \$240,185.65. However, cash dividends and interest on bonds received and accrued amounted to \$733,116.09 in 1929, while in 1928 this figure was but

\$471,929.67. The fact that investment securities in stocks and bonds was increased from \$14,447,828.66 as of December 31, 1928 to \$20,825,958.74 as of December 31, 1929 must, of course, be taken into consideration. It is apparent, nevertheless, that the trust today is depending more upon yield than upon market appreciation.

The net income over the four-year life of the trust is as follows: December, 1926, \$249,526.30; December, 1927, \$289,474.11; December, 1928, \$1,715,393.45; December, 1929, \$707,022.51. The latter figure, it is to be noted, is over one million dollars less than that of the preceding year.

Dividends have been declared regularly on the preferred stock. This stock is cumulative but non-convertible and in January, 1930, had a liquidating value of \$100. The preferred stock can be redeemed at the option of the Company, as it may desire, at \$110. per share. As yet, the common stock has not participated in any of the earnings, although in 1928 the earnings per share of common stock amounted to 5.90%. In order to retire annually \$20,000 of the funded debt to provide for the preferred stock dividends, a sinking fund and a reserve fund have been established. The practice is to set up reserves equal to two years' dividends on outstanding preferred stock. Investment stocks having a market value equal to 125% or more of the funded debt are deposited with the trustee as collateral.

...the first time that ...
...the second time that ...
...the third time that ...
...the fourth time that ...
...the fifth time that ...
...the sixth time that ...
...the seventh time that ...
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...the ninth time that ...
...the tenth time that ...
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...the thirteenth time that ...
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...the seventeenth time that ...
...the eighteenth time that ...
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...the ninety-sixth time that ...
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...the ninety-eighth time that ...
...the ninety-ninth time that ...
...the hundredth time that ...

The common stock was offered to the public at \$54.00. In June, 1929, it was split up two for one, without any change in either the capital account or the surplus, a stock dividend of one share for each share held being given to all common stockholders. The high and low range for 1929 was 98 1/2 and 23 respectively. During January, 1930, the stock fluctuated around 35. In November, 1929, 21,500 shares of common stock were sold which looks as though the public had faith in its speculative possibilities.

The American European Securities Company was one of the first trusts to conform to all the regulations for listing on the New York Stock Exchange.

CONNECTICUT INVESTMENT TRUST

The Connecticut Investment Trust, a common law trust commencing business in May, 1927, deals primarily in the securities of electrical companies, for the most part those in the public utility field. Securities representing broad diversification and covering practically every state in the Union are purchased "only at their intrinsic worth".

Three kinds of shares are issued, preferred trustee shares, Class A shares, and Class B shares. Provision is made that there shall be no more preferred trustee shares outstanding than there are Class A shares. Preferred trustee shares pay a dividend of 7%. They are assured both as to principal and dividends by a deposit of some of the investment securities with the Riverside Trust Company of Hartford.

Class A shares have preference in the earnings up to 25¢ per share per year over Class B shares, after which extra earnings are divided, two-thirds going to Class A and one-third to Class B shares. In the event of liquidation preferred trustee shares come first. Class A shares have preference over Class B up to \$7.50 per share, and the remaining assets are divided in the same manner in respect to earnings, two-thirds going to Class A shares and one-third to Class B shares. Class B common shares are reserved for the organizers. Provision is made that the Founders shall have the privilege

of purchasing Class B common shares to the extent of one hundred for every two hundred Class A shares which are sold to the public. These options are granted to the Founders to recompense them for bearing all expenses incident to organization.

In reviewing the policy of the management over the year preceding the market break, it is noticeable that it seemed to be alert to economic and financial trends. Even before the close of 1928, the President of the Trust reported that constant management had been essential during the year owing to the character of the security market. Early in 1929, he announced that owing to the warnings issued by the Federal Reserve Board regarding the credit situation, the Trust had entered upon a policy of purchasing fewer stocks and selling several so as to increase its cash balance.

The Trust seems to be particularly conservative. It claims that it does not concern itself with minor ups and downs of the market, although it endeavors to sell in an advanced market and take actual profit. Since the underlying securities are purchased at as near the right price as possible, it is contended that it is unnecessary to sell them during a bear market because their income is continuous regardless of minor fluctuations or a real "Bear raid". In this respect it adheres to what should be typical investment trust practices, that is,

of American firms & common stocks in the extent of one
hundred for every one hundred shares of common stock are sold to
the public. These options are granted to the holders of
common stock for bearing all expenses incident to organiza-

tion.
In reviewing the policy of the management over the year
preceding the current year, it is noticeable that it seemed to
be alert to economic and financial trends. From before the
close of 1939, the President of the Trust reported that man-
agement had been somewhat anxious to sell owing to
the character of the economy. Early in 1939, he an-
nounced that owing to the various losses by the Federal Re-
serve Board regarding the credit situation, the Trust had
entered upon a period of liquidation of their assets and selling
securities as well as interest in other companies.

The Trust seems to be particularly conservative. It
claims that it does not consider itself with other companies
of the market, although it is anxious to sell in an advanced
market and the selling of the Trust's securities is possible. It is
contended that it is unnecessary to sell now during a bear
market because the Trust is in a position to sell at a profit
at any time. In the future, it is expected that it
will be able to sell at a profit. It is also expected that it
will be able to sell at a profit.

buying and selling of good stocks regardless of intermediate fluctuations. A substantial surplus has been built up, and paper profits are disregarded in figuring both dividends and assets.

The Connecticut Investment Trust made steady progress until the recent market break. On May 1, 1927, the offering price per share was \$5.00. Since that time it advanced to \$7.37 1/2 as of July, 1929. Earnings for the second quarter of 1929 were better than 26 1/2¢ a share. About half of this amount, 13¢ per share, was paid in dividends, the remainder being carried to surplus.

Apparently no financial statements are published, but quarterly reports of progress showing dividends and earnings are distributed to shareholders. Also, no publication is made of the underlying securities which constitute the portfolio. Possibly the list is available at the offices of the Trust where, according to the prospectus, an active market in shares is maintained. The lack of informative data is a drawback to the broad selling of securities, although it appears that the Trust aims to attract local investors primarily.

paying and selling of good stocks regardless of later developments. A substantial surplus has been built up, and paper profits are distributed in liquid form dividends and annuities.

The Connecticut Investment Trust made steady progress until the recent market crash. On May 1, 1929, the offering price was \$25.00. Since that time it advanced to \$27.00 on 27 July, 1929. Yields for the second quarter of 1929 were better than 1/2% a share. About half of this amount, the per share, was paid in dividends, the remainder being carried to surplus.

Apparently no financial statements are published, but quarterly amounts of profits are distributed as dividends and annuities are distributed to shareholders. Also, the reputation is made of the underlying securities which constitute the portfolio. Obviously the fact is available to the public at large that there, according to the prospectus, an active market in shares is maintained. The lack of information as to a statement to the public at large is regrettable, although it appears that the Trust aims to attract local investors rather-

GENERAL PUBLIC SERVICE CORPORATION

General Public Service Corporation, organized in December, 1925, represents a general management investment trust dealing primarily in the common stocks of public utility companies. The Corporation regards itself as an investment company, defining an "investment trust" as an organization in which the shareholders have a beneficial interest in a group of securities held by a trustee in contrast with an "investment company" in which the stockholders own a proportionate interest in all the assets of the corporation.

The capitalization of the company is as follows;*

	Authorized	Outstanding
Gold Debentures		
5% Convertible Series due 1953	*	\$4,972,000
5 $\frac{1}{2}$ % " " " 1939	*	9,999,000
Preferred Stock (no par value)	175,000 shares	
\$6 Dividend Series		24,629 shares
\$5.50 " "		280 "
Junior Preferred Stock (no par value)	100,000 shares	None
Common Stock (no par value)	1,000,000 "	627,256 shares

Each share of common stock carries with it one vote. Preferred stock is cumulative and carries no voting privilege except under certain conditions as in the case of default of dividend payments. Gold debentures are redeemable on thirty

*Fourth Annual Report, 1929, General Public Service Corporation, page 13

days' notice at 104 up to January 1, 1933; thereafter, at 103, and so on, the price falling in direct proportion to the length of time the bonds are outstanding.

The practice of the Corporation is to issue new convertible debentures when the senior securities and junior securities are not well balanced. For instance, in June, 1929, partly due to the appreciation of the market value of securities, 80% of the Corporation's assets were represented by common stocks. In July, after the issue of \$10,000,000 worth of ten-year 5 1/2% convertible debentures, this ratio was reduced to 63.6% of the total.* At the close of the year the ratio was 50.3%. The shares of common stock were 36,252.72 as of December 31, 1929, while there were 40,445.12 shares as of December 31, 1928.

The portfolio of the Trust is well diversified containing the securities of the larger, well-known corporation from all different sections of the United States. Over 43.6% of the total investment is in securities which the Trust states have had unbroken dividend records for at least fifteen years; 50.2% is in other stocks which pay dividends; the remainder 4.3% is in non-income investments. Included in the list are the stocks of the American Telephone & Telegraph Company, Electric Bond and Share Company, Niagara Hudson Power Corporation, Consolidated Gas Company of New York, and other equally popular utilities. One investment trust, Insuranshares

*Compare page 4, Fourth Annual Report, 1929, Public Service Corporation.

Certificates Incorporated, is also represented with 27,490 shares of common stock having a market value of \$384,860 as of December 31, 1929.

A comparison of the securities represented as of December 31, 1928 with those of December 31, 1929 illustrates the manner in which the portfolio of the management type of investment trust may vary from time to time.

Total Companies Represented December 31, 1928---	58
Dropped during the year-----	20
Added during the year-----	25
Total Companies Represented December 31, 1929---	63

An analysis of the investments of the Corporation as of December 31, 1929, is as follows: *

	<u>Market Value</u>	<u>Percentage of Total Market Value</u>
Common Stocks and Option Warrants		
Utilities (Holding)	\$12,166,146	34.39%
Utilities (Operating)	10,542,173	29.80%
Industrials	4,575,924	12.93%
Banks	2,466,842	6.97%
Investment Companies	4,061,417	11.48%
Foreign Stocks	517,650	1.46%
Bonds, Notes and Preferred Stocks	<u>592,969</u>	<u>1.68%</u>
Total Investments	\$34,923,121	
Cash	<u>456,482</u>	<u>1.29%</u>
Total	\$35,379,603	100.00%

*Fourth Annual Report, 1929, General Public Service Corporation, page 9

Investment Trust, Inc. (hereinafter referred to as the Trust), is also represented by its officers and directors at common stock having a par value of \$100.00 per share.

A comparison of the assets of the Trust as of December 31, 1937, with those of December 31, 1936, is shown in the manner in which the portfolio of the Trust has changed during the year.

Investment Trust, Inc. very truly yours,
 President
 Treasurer
 Secretary
 Director

December 31, 1937, as follows:

Assets	Liabilities	Total
Cash Accounts Receivable Notes Receivable Investments Real Estate Other Assets	Accounts Payable Notes Payable Other Liabilities	Total Assets Total Liabilities Total Equity
\$100,000.00 10,000.00 20,000.00 10,000.00 10,000.00 10,000.00	10,000.00 10,000.00 10,000.00	140,000.00 30,000.00 110,000.00

At the close of the financial year just passed, the asset value of each share of the common stock was \$29.97 or 46.2% in excess of the book value. The Corporation states that after the stock market break in October and November, 1929, the market value of all investments held was 11% below their cost or book value. At the close of 1929, many of the underlying securities had recovered sufficiently so that their market value was 19% above cost or book value.

A semi-annual 3% dividend of common stock was paid, making a total of 6% stock dividends during 1929. For 1928, 8% was paid in stock dividends. During 1929 the number of stockholders increased from 3,360 to 4,879. The price of the common stock rose to 98 previous to the market collapse. Its high and low for January, 1930 were respectively 32 2/8 and 36 3/4. The stock was listed on the New York Stock Exchange in June, 1929. As the greater part of income was derived from the sale of securities, with the falling off in public utilities, prospects for the junior shares are not at present particularly favorable. For the long pull, however, the Trust has excellent possibilities at present prices.

THE GUARDIAN INVESTMENT GROUP

To meet the requirements of the investor who prefers public utilities or rail shares, The Guardian Investment Trust, sponsored by F. E. Kingston & Co., Hartford, Connecticut, has provided as specializing trusts The Guardian Public Utilities Investment Trust and The Guardian Rail Shares Investment Trust.

The Guardian Investment Trust operates under the laws of the State of Connecticut in accordance with a trust agreement. It is, however, of the general management type rather than of the limited or fixed type as are most investment trusts created under a declaration of trust. Its prospectus states that it aims to follow the best British practices, "investing and re-investing its funds in a widely diversified field of domestic and international securities as dictated by a constantly informed, alert management."

The capitalization of this management Trust, limited to \$50,000,000. outstanding, is unusual in that it does not consist of one class of participations as do most trusts created under a trust agreement. Instead, there are preferred beneficial ownership certificates, convertible preferred beneficial ownership certificates, and common beneficial ownership certificates. One hundred thousand shares of the latter are reserved for the convertible preferred and 150,000 shares for the exercise of warrants in the interest of the preferred

THE NATIONAL INVESTMENT BANK

To meet the requirements of the Government, the

Public will have to call upon the Government for

agencies by E. E. Higgins & Co., Hartford, Connecticut, New

England as representative of the American Public will

Investment Trust and the American Public will

The American Investment Trust is a trust which

the State of Connecticut is authorized with a trust which

It is, however, of the general management of the State of

and limited to the type of the trust which is

under a declaration of trust. The purpose of the trust is

also to follow the trust which is

investing the trust in a trust which is

and institutional character of the trust is

trust, after management.

The capital of the trust is

\$100,000,000, and is divided into

shares of the value of \$100,000,000, and is divided into

shares of the value of \$100,000,000, and is divided into

shares of the value of \$100,000,000, and is divided into

shares of the value of \$100,000,000, and is divided into

shares of the value of \$100,000,000, and is divided into

shares of the value of \$100,000,000, and is divided into

shares of the value of \$100,000,000, and is divided into

certificate holders. For managerial services, The Guardian Investment Trust is paid every year "1% on the average capital employed by the Trust in its business as determined monthly." * It is claimed that no shares are distributed gratuitously for any services rendered.

Like the management Trust, The Guardian Rail Shares Investment Trust and The Guardian Public Utilities Investment Trust both have preferred beneficial ownership certificates as well as common. They, too, are organized under trust agreements rather than as corporations or associations.

The Guardian Public Utilities Investment Trust states that its purpose is "to provide a medium whereby the investor may avail himself of the profitable opportunities in the public utility field." The advantages that the Trust claims for specializing in this field are that (1) public utility companies are the very foundation of the industrial life of business; (2) public utility companies operate on a franchise basis and are practically without competition; (3) the average increase in the earnings of public utility companies is from 10% to 12% annually.

The Trust does not operate with a closed portfolio but has a selected list of securities from which the managers may chose. This list covers one hundred gas, electric light, power, and telephone and telegraph companies in this country

*All quotations are taken from the prospectuses of the Trusts

certificates... For...
Investment Trust is held every year...
managed by the Trust is its business as...
it is claimed that no... are distributed...
any services rendered.

Like the Management Trust, the...
Investment Trust and the...
Trust both have...
as well as... they are...
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The...
that the purpose is to provide a...
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... in this field...
... are the very... of the...
... (2) public utility companies...
and are... without... (3) the average...
... of public utility companies is from
100 to 125 annually.

The Trust...
... of...
... This...
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and about the same number in England, Germany, France, Austria, Belgium, and several other foreign countries.

The purpose of the Guardian Rail Shares Investment Trust as stated in the prospectus is "to provide a medium whereby the investor may avail himself of the most profitable opportunities in the transportation field." The reasons for investing in railroad securities as set forth by the Trust may be enumerated as follows: (1) possibilities of favorable developments, such as electrification and higher operating efficiency, which should benefit the investor; (2) possibilities that airplane service will supplement rail; (3) consolidations.

As in the case of The Guardian Public Utilities Investment Trust, the management is left to determine what securities shall go into the portfolio of The Guardian Rail Shares. There is nothing very definite in regard to the approved list as the statement is made that it is a partial one and that the management is expected to, not must, include the securities of the various companies represented. However, securities other than railroad can be purchased only with the unanimous approval of the trustees.

For the investor satisfied with a low, steady rate of return, this Trust may have some appeal. With an average yield on railroad stock of only a little over 4%, diversification of risk seems to offer little advantage. The individual investor

and about the same number in England, Germany, France, Belgium, and several other foreign countries.

The purpose of the Committee is to study the investment of American capital in the foreign countries in which the American people have a right to be interested. The Committee is organized for the purpose of making a study of the investment of American capital in the foreign countries in which the American people have a right to be interested. The Committee is organized for the purpose of making a study of the investment of American capital in the foreign countries in which the American people have a right to be interested.

As in the case of the Committee on the Foreign Investment of American Capital, the Committee on the Foreign Investment of American Capital is organized for the purpose of making a study of the investment of American capital in the foreign countries in which the American people have a right to be interested. The Committee is organized for the purpose of making a study of the investment of American capital in the foreign countries in which the American people have a right to be interested.

The Committee on the Foreign Investment of American Capital is organized for the purpose of making a study of the investment of American capital in the foreign countries in which the American people have a right to be interested. The Committee is organized for the purpose of making a study of the investment of American capital in the foreign countries in which the American people have a right to be interested.

by selecting the best railroad securities could do better for himself.

At the present time neither of the Trusts have been in operation long enough to demonstrate their earning power. As Series I preferred beneficial ownership certificates carry option warrants which give the holder the privilege of purchasing an equal number of common shares over a period of four years at prices ranging from \$10.00 to \$25.00, the common stock is particularly speculative.

by releasing the best qualified applicants to the public
himself.
At the present time neither of the States have been
opposed to any change in the administration of their
series I preferred to maintain the existing order
option to the holder the privilege of making
the an equal number of copies of the same for a period of four
years at prices ranging from \$10.00 to \$25.00, the amount being
is particularly speculative.

Particular Industries

Geological Survey

CHAIN STORE INVESTMENT CORPORATION

This trust, claiming to have originated the idea of the chain store investment trust, is of the specializing type. The intent of the Corporation is to invest in chain store companies of the smaller kind which are, as the President, Paul Dudley Childs, says in his report of January 25, 1929, "somewhat more speculative than the average, but also more lucrative." The managers, Childs, Jeffries & Co., Inc., have the privilege of buying 5,000 shares of the common stock at \$25.00 per share for a period of five years. They are furthermore entitled to receive one-half of one per cent based on the liquidating value of all the outstanding capital stock as determined by the directors for furnishing space, clerical, statistical, and other services to the Chain Store Investment Corporation.

Regarding the option warrants the statement is made that they become worthless unless there is a "continuous appreciation the value of the securities." In November, 1927, the stock was offered at \$26.00 per share with liquidating value of \$25.00. In January, 1929, the price was \$92.00 bid with a liquidating value of \$61.54. It was claimed at this time that had the Corporation invested in the larger Chain Store companies, the liquidating value per share in January, 1929, would have been but \$37.00 or \$38.00 and lower than the general industrial average. The

better average obtained by the Corporation was attributed to constant and vigilant management. Previous to August, 1929 the stock was split five for one. The 1929 range was high 20 and low 13. It is now currently quoted "over the counter" at 13, with the par value of each share being \$5.00.

The securities owned by the Company as of December 13, 1927 included a number of the smaller chains and a few of the better known such as The Great Atlantic & Pacific Tea Company (325 shares); First National Stores, Inc. (1300 shares); United Drug Co. (300 shares). The total cost of investment was \$1,008,661.94 with a market value of \$1,168,545. As the Company was organized in November, 1927, this shows an appreciation in one month of nearly \$60,000, or a yield equivalent to \$3. on the 20,000 common shares outstanding at \$25.00 per share.

By December 31, 1928, the list of securities owned had changed considerably. Only 8 of the 26 companies as represented December 31, 1927, appear on the list in December 31, 1928, which, however, still covered 26 companies. Whether this was due to a change in policy on the part of the management in order to include smaller chains or whether a few leaders were placed in the original list to attract the investor is a question. As of December 31, 1928, the value of investments at cost, or the market value, if the latter is less than cost, was \$1,157,257.97, and the market value, \$1,721,223.75.

Reasons why the chain store offers such unusual opportunities for the investor are most ably set forth by the trust in a pamphlet which states that the average percentage earned on the book value of 9 chains is shown to be 27.7%. However, as of December 31, 1927, only one of these companies showing unusual earnings, The Great Atlantic & Pacific Tea Company of America, was included among the securities owned by the Chain Store Investment Corporation. As of December 31, 1928, there were but two, the Kroger Grocery Co. and the J. J. Newberry Co. The statistics, while apparently true, do not tie up as well as they might in relation to the securities held by the trust, notwithstanding that there seems to have been considerable selling and shifting of these investments during the life of the trust.

Most authorities seem to be of the opinion that the chain store, with merger prospects in view, will continue to show a favorable development. The problem now is that of chain against chain rather than chain against the independent retailer. Chain Store Investment Corporation has diversified its securities over a number of different lines, as grocery, general merchandise, drug, shoe, candy, and auto supply chains. In this way it believes it is able to iron out seasonal influences, because, for instance, in the case of the general merchandise chain, the greater part of the sales are concentrated in the months of

November and December. The list of securities is published annually, and an up-to-date list is kept on file in the office of Childs, Jeffries & Company and may be seen at any time on request.

METAL AND MINING SHARES INCORPORATED

Metal and Mining Shares, Incorporated illustrates the research type of investment trust. Connected with it is Mineral Research Corporation, an auxiliary organization which is constantly analyzing information and making investigations. The idea of an investment trust dealing exclusively in mining interests is not altogether new for several of the British holding-company type of investment trusts have followed this practice, namely the Rand Mines, Ltd; the Central Mining and Investment Trust of London, and the African-European Investment Trust.

The Mineral Research Corporation is retained, in the words of the Metal and Mining Shares, Incorporated, to act in an advisory capacity because it is able (1) "to get the facts about developments in the metal and mining industry all over the world; (2) to get these facts promptly; (3) to forecast the trend of metal markets." A great amount of very convincing advertising literature has been prepared by the Research Corporation to demonstrate how important metal is in industry. For instance, in 1927, according to its reports, "the railroads used 6,000,000 tons of metal; the public utilities, 203,000 tons of copper; the telephone and telegraph companies required 103,000 tons of copper and 100,000 tons of lead; 4,000,000 tons of steel were used in buildings in 1927. Automobile manufacturers for the same period consumed 5,000,000 tons of steel

aluminum, copper, tin, lead, zinc, and nickel." *

Until after a dividend of \$1.50 per share is distributed to all stockholders, only the operating expenses are paid by the Metal and Mining Shares, Incorporated to the Research Corporation. Then extra dividends are divided, two thirds going to the common stockholders, and one-third to the Research Corporation. The latter, in turn, awards the engineers and the mining experts who are kept in the field doing research their share of the profits. No definite statement is made, nevertheless, as to what is included in operating expenses and as to whether the consulting engineers and other research employees receive a stipulated salary besides.

Although investments are made primarily in the securities of one industry only, wide diversification is claimed in that nearly one hundred different companies are represented and twenty different countries, with securities listed on every recognized stock exchange. Moreover, shares are owned in companies operating in fifteen different metals. Some of the companies represented are not only miners but fabricators of metal, so this gives additional diversification.

With an unusually well-equipped research organization, it is only natural that the management factor should play an important part. Managers are given power to purchase and sell securities whenever it is advisable or in order to take advantage

*Compare with pamphlet, "The Mineral Industry is a Basic Industry", page 24, published by Metal and Mining Shares, Incorporated.

...and nickel.

Until after a dividend of \$1.00 per share is distributed to all stockholders, only the operating expenses are paid by the trust and Mining Shares, Incorporated by the Research Corporation. When entire dividends are divided, two-thirds going to the common stockholders, and one-third to the Research Corporation. The latter, in turn, awards the dividends and the Mining Shares are paid to the Research Corporation. Their share of the profits, is retained in the Research Corporation, so that it is included in operating expenses and on the other hand the common Mining Shares and other Research employees receive a substantial salary benefit.

Although investment is made primarily in the second half of one industry only, wide diversification is obtained in that Mining was included in the first half and the second half and thereby different conditions are presented and thereby different conditions, with somewhat less than an even representation of the various. Research, shares are sold in the Mining Shares in the Mining Shares. Thus at the Mining Shares are sold in the Mining Shares but the Research Corporation, in the Mining Shares, diversification. It is an extremely well-balanced research organization, it is this natural way the Research Corporation should play an important part. Research and the other of business and all the business is in the Mining Shares to the Mining Shares.

Research with business, the Research Corporation is a Mining Corporation, and the Mining Shares are sold in the Mining Shares.

of market profits. Up to July, 1929, however, restrictions were made as to the kind and the amount of securities the management could deal in, 70% of the capital being limited to Class A securities, and the remaining 30% to Class B securities. The former represent listed securities which pay dividends, while the latter are the securities of metal companies which are not developed to their full power but have "possibilities for exceptional earnings." In the summer of 1929, investment restrictions were removed, and in November, the Trust stated that it had liquidated over 50% of its holdings, reinvesting funds thus realized primarily in the stocks of metal and mining companies which had had no spectacular rise. It furthermore informed stockholders that it was investing in bonds with an assured return of 6%.

Previous to the market decline, the Trust claimed unusual advantages in that unlike the other industrial groups and the public utilities, the metal and mining securities had not had their bull market. According to statistics the Corporation presents, industrial stocks as a whole (Dow Jones 20 industrial stocks) rose from 105 to 290 (as of December 4, 1928), a 185 point rise, while seventeen representative mining stocks advanced from 43 to 107, a 64 point rise. In an estimate prepared by the Boston News Bureau, the average net profit for all American industries for 1927 was 6.67% while the average for

of various profits. By the end of 1932, however, transactions were made as to the kind and the amount of securities the company would hold in 90% of the capital being limited to class A securities, and the remaining 10% to class B securities. The former represented listed securities which pay dividends, while the latter was the acquisition of other securities which are not developed as to their full power but have "contingent" tax and optional features. In the summer of 1932, investment restrictions were removed, and in November, the Trust stated that it had distributed over 50% of its holdings, retaining funds that remained primarily in the form of stock and mining companies which had had no substantial rise. It furthermore informed stockholders that it was investing its funds with an assumed return of 6%.

Provisions in the master decline, the Trust obtained financial advantages in that while the other industrial groups and the public withdrew, the Trust and mining securities had not had their full share. According to statistics the Corporation presented, industrial stocks as a whole rose from 30 industrial stocks from 1929 to 1932 (as of December 4, 1932), a 18% point rise, while diversified representative mining stocks advanced from 25 to 107, a 32 point rise. In an estimate prepared by the Boston News Bureau, the average net profit for all American enterprises for 1932 was 4.5% while the average for

metal and mining companies was 7.94%.

The Trust, at the present time, has accumulated an earned surplus sufficient to pay more than the next three quarterly dividend payments, approximately \$90,000. The range for 1929, according to quotations on the New York Curb Exchange, were high, 23 7/8; low, 5. On January 6, 1930, its high and low price were 9 3/4 and 8 1/2 respectively.

The earnings per share of common stock, as set forth in a letter to the writer, were as follows;

(a) First six months of 1929--based on average No. shares outstanding	2.44
(b) First eight months, 1929--based on average No. shares outstanding	3.12
(c) July and August, 1929--based on actual shares outstanding August 31st	4.14
(d) August, 1929--based on actual shares outstanding August 31st	5.43

As of November 23, 1929, the President informed stockholders that the breakdown value of a share was over \$22. The Trust at this time had an earned surplus of approximately \$275,000. Although reporting that the break in stock prices did not affect the Company to any serious extent, the shift to a large investment in bonds and the change in policies would indicate disturbing internal conditions. For the investor interested in mining stocks, however, shares at the present price offer possibilities. With excellent Research facilities,

metal and mining companies was 7.00%.

The Trust, at the present time, has accumulated an amount sufficient to pay more than the next three quarterly dividend payments, approximately \$40,000. The range for 1932, according to projections on the New York City Exchange, was 12 1/2% to 15% on January 1, 1933, the high and low prices were 9 1/2% and 1 1/2% respectively.

The following per share of common stock, as set forth in a letter to the writer, were as follows:

- (a) First six months of 1932--based on average M. shares outstanding 2.44
- (b) First eight months, 1932--based on average M. shares outstanding 2.12
- (c) July and August, 1932--based on actual shares outstanding August 31st 2.12
- (d) August, 1932--based on actual shares outstanding August 31st 2.44

As of November 23, 1932, the Trust's interest stock consisted of the following: The balance sheet of a share was over \$20. The Trust at the end of the year had a surplus of approximately \$200,000. The Trust's revenue for the year was \$100,000. It is not clear the company is any better off, the ability to raise resources is weak and the change in interest rates indicates a sharp decline in interest rates. For the investor interested in mining stock, however, action at the present time offers excellent opportunity. With a surplus of \$200,000.

and the P. H. Whiting & Co., Inc. handling the sale of the securities, Metal and Mining Shares, Incorporated should, over a period of years, show a satisfactory growth. It must be considered, however, that such services are paid for indirectly by the investor and that his yield is thereby diminished.

and the E. J. ... Building Co., Inc., resulting in the sale of the
securities, Hotel and Kitchen ... Incorporated ...
a period of years, upon a satisfactory basis. It was to be
advised, however, that such services are paid for in advance of
the inventor and that his yield is thereby diminished.

UNITED STATES DEPARTMENT OF THE INTERIOR

	1972	1973	1974	1975	1976
1. American Indian Trusts	20 1/2	20	20 1/2	20 1/2	20
2. Alaska Native Trusts	10 1/2	10	10 1/2	10 1/2	10
3. Hawaiian Trusts	10 1/2	10	10 1/2	10 1/2	10
4. Indian Land Trusts	10 1/2	10	10 1/2	10 1/2	10
5. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
6. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
7. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
8. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
9. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
10. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
11. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
12. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
13. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
14. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
15. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
16. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
17. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
18. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
19. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
20. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10

Financial Investment Trusts

1. American Indian Trusts	20 1/2	20	20 1/2	20 1/2	20
2. Alaska Native Trusts	10 1/2	10	10 1/2	10 1/2	10
3. Hawaiian Trusts	10 1/2	10	10 1/2	10 1/2	10
4. Indian Land Trusts	10 1/2	10	10 1/2	10 1/2	10
5. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
6. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
7. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
8. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
9. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
10. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
11. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
12. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
13. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
14. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
15. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
16. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
17. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
18. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
19. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10
20. Indian Land Use Trusts	10 1/2	10	10 1/2	10 1/2	10

EXHIBIT 1

CENTURY SHARES TRUST

	<u>1929 High</u>	<u>Recent Low</u>	<u>Decline in Points</u>	<u>Decline in Percentage</u>
Air Investors, Inc.	20 1/8	3	17 1/8	85
Alleghany Corp.	56 1/2	17	39 1/2	70
American Founders Corp.	122 7/8	66	56 7/8	46
American Int. Corp.	96 3/4	29 1/2	67 1/4	69
Blue Ridge Corp.	29 5/8	3 1/8	26 1/2	90
Continental Shares	78	35	43	55
Financial Investing	30	4 7/8	25 1/8	83
General Amer. Inv.	30 1/4	8 7/8	21 3/8	70
General Capital Corp.	83	20	63	76
Goldman Sachs Trading Corp.	121 1/4	32	89 1/4	73
Haygart Corp.	82 3/8	27 7/8	54 1/2	66
Incorporated Investors	89 1/2	39	50 1/2	56
Interstate Equities	25 1/2	12 3/8	13 1/8	51
Lehman Corp.	136	63	73	54
Marine Midland	75	28	47	62
Mass. Investors Trust	64	38	26	41
Mohawk Investment Corp.	89 1/2	50	39 1/2	44
National Investors	84 3/4	10 3/8	54 3/8	84
Old Colony Inv. Trust	32	15	17	53
Power & Light Sec. Trust	100	45	55	55
Public Utility Holding Corp.	38	15 1/2	22 1/2	60
Shawmut Inv. Assoc.	35	15	20	60
Shenandoah	39 3/8	6 7/8	32 1/2	82
Spencer Trask Fund	50 1/4	30	20 1/4	40
State St. Invest. Corp.	143 1/2	61 1/2	82	57
Sterling Securities Corp.	38	8 1/4	29 3/4	78
Third Nat. Investors	85	27	58	70
Transamerica Corp.	67 3/8	35 3/8	32	47
Tri-Cont. Corp.	57	11 1/8	45 7/8	81
United Founders	75 1/2	25	50 1/2	67
Average Decline				64
Century Shares Trust	67	40	27	40

CENTURY SHARES TRUST

Century Shares, a Massachusetts Trust with Brown Brothers & Co. depositary, sets forth in its offering circular that its principal purpose is "to make available to investors shares of moderate price which will be readily marketable and which will represent an investment in a diversified list of Insurance Company and Bank stocks ordinarily available only in high price units."

Instead of the usual common stock share, there are two classes of no par value termed "Participating" and "Ordinary". Participating shares somewhat resemble preferred stock in that they receive dividends of \$2.00 payable semi-annually from the annual net profits before any distributions are made to Ordinary shares. In case of liquidation, they also have preference of \$50.00 a share. Any additional earnings are distributed on a basis of 85% to Participating shares and 15% to Ordinary shares. This may be in cash or in the form of new shares. In case of liquidation, additional distribution of assets may be apportioned in the same manner.

By the agreement and declaration of trust, amended November 26, 1928 and May 22, 1929, the six Trustees, four of whom are connected with Brown Brothers & Co., are given exceptionally broad powers. They may invest and reinvest the property of the

trust "in the capital stock of any insurance company, bank or trust company of the United States of America or of any state therein or of any foreign country, in shares of any subsidiary of the same", as well as in the bonds and notes of almost any organization or individual. Furthermore, "no investment or reinvestment shall be deemed improper because of its speculative character or because a greater proportion of the trust is invested therein than is usual for trustees, or by reason of any interest, direct or indirect, which any Trustee or Shareholder or Depositary or Brown Brothers & Co. either individually or in any representative or fiduciary capacity may have therein, or by reason of any profit which they or any of them may make therefrom." *

The Trustees, with the written consent of two-thirds of the holders of both kinds of shares, may alter the provisions pertaining to Participating and Ordinary shares. They may issue from time to time such other shares having any rights of priority or otherwise. They may also buy in and retire shares under certain restrictions. Brown Brothers & Co., Depositary, may acquire shares of the trust by purchasing at the liquidating value of the outstanding shares units made up of one Participating and one Ordinary share. Participating shares are sold to the public, while it appears that the Ordinary

*Century Shares Trust: Agreement and Declaration of Trust, March 1, 1928, page 2

...in the capital stock of any insurance company, bank or
trust company of the United States or of any other
State or of any foreign country, in which of any such
of the same, as well as in the bonds and notes of almost any
organization or institution. Furthermore, the investment or re-
investment shall be deemed improper because of its speculative
character or because a greater proportion of the trust is in-
vested therein than is usual for trustees, or by reason of any
interest, direct or indirect, which any trustee or shareholder
or beneficiary or donor, whether a Co., either individually or in
any representative or fiduciary capacity may have therein, or
by reason of any profit which they or any of them may make there-
from.

The trustees, with the written consent of two-thirds of
the holders of both kinds of shares, may after the provisions
hereinafter set forth relating to the shares have been
made, from time to time, and from time to time, make any transfer of
shares or shares to any person who may also be in and retain shares
which are not transferable. From time to time, the trustees
may exercise powers of the trust in transferring of the shares
the value of the outstanding shares shall be as of the
particular date and any shares shall be transferred to the
and sold to the holder, while the shares are in the custody

shares have the rights and privileges and are held by the Trustees.

Trustees who are members of Brown & Co. receive no compensation, while those who are not partners or employees of this company, receive a "reasonable fee" for attendance at meetings. Trustees are required to render to shareholders an account only once a year and they are not "required to keep accounts showing separation of the trust property as between principal and income." Furthermore, as of November 7, 1928, instead of making "distributions out of the receipts from or accretions to the trust property among the Shareholders," etc., a certain part of the receipts from the sale of each Participating share (not to exceed \$2.00) will be set aside as "receipts from or accretions to the trust property".*

Trustees may vary in number from a minimum of five to a maximum of fifteen. Appointment of Trustees is made by a two-thirds vote of the holders of the Ordinary shares.

It is evident that the investor who buys shares in this type of trust places great confidence in the management. If it is well-managed, he may benefit in that trusts of this kind are able to keep expenses at a minimum and in that the trustees may themselves be large shareholders of the Ordinary shares or Class B shares. Provided they are honest, they will do their

*Century Shares Trust: Agreement and Declaration of Trust, March 1, 1928, page 3

best to make profits. On the other hand, they may have but a small investment in the trust themselves and play "big" with the funds of the investors who are likely to lose heavily while the managers suffer but little.

Century Shares Trust seems to have fared well during its short career of less than two years. The accompanying chart prepared by the organization, illustrates its percentage of decline in comparison with several other trusts. It must be remembered in using any average of this kind that only a limited number of trusts are included. The figures for the representative trusts given herein, however, check closely with those of other authorities. The Trust is fair in presenting not merely the 1929 low but the recent low which, in its own case as well as that of a number of other trusts, is less than its 1929 low.

The fact that Century Shares Trust showed only a 40% decline as compared with an average decline of 64% by the 30 trusts listed indicates that sound management policies prevail. The Trust attributes its satisfactory showing partly to disposing of some of its holdings prior to the break and having cash on hand instead of stocks. As of January 6, 1930, the bid price was 48, asked price 50, being comparatively a good recovery.

In a letter to the writer dated January 9, 1930, Secretary W. H. Davies expressed the following opinion in reference to

...to take profits. On the other hand, they may have lost
...investment in the first transaction and they may also
...of the investors who are likely to face heavy
...the investors suffer but little.
...Century shares there seems to have been half during the
...short career of less than two years. The accompanying chart
...prepared by the organization, illustrates the percentage of de-
...in comparison with several other firms. It must be remem-
...in being any measure of this kind that only a limited
...of firms are included. The figures for the respective
...were given below, however, each closely with those of
...other institutions. The firm is said to be increasing and selling
...the last row and the row of the firm, in the case of the
...as that of a number of other firms, is less than the 1929 row.
...The fact that history in the first row was only a 50 per-
......with an average decline of 50 per cent of the 50
......which means that the firm's position is
......and satisfactory in the party to the firm-
...of some of its position prior to the first and having then
......of January 1, 1929, the price
......being comparatively a good recovery.
...In a letter to the writer dated January 1, 1930, Secretary
......expressed the following opinion in reference to

the future of investment trusts specializing primarily in insurance and bank stocks.

"We can see no reason to expect any change, and, therefore, can state that it is our opinion that the future of a well-managed investment trust specializing in insurance and bank stocks will be as bright as is the future of the best managed insurance companies and banks."

The future of investment trusts specialized in

insurance and bond stocks.

"We can not expect to expect any more, and, there-

fore, can state that it is our opinion that the future of a

well-managed investment trust specialized in insurance and

bond stocks will be as bright as the future of the best

managed insurance companies and banks."

DETROIT BANK PARTICIPATION SHARES
and
CHICAGO BANK PARTICIPATION SHARES

Detroit Bank Participation Shares, a fixed trust of the unit type, organized in July, 1929, illustrates limited diversification in that included in its investments are nothing but the bank stocks and trust companies of the leading banks in Detroit together with their branches. Certificates are issued by the Fidelity Trust Company, depositary. Industrial Securities Corporation is the Depositor. Each Detroit Bank Participation Share, according to the prospectus of the trust, represents a 1/1000 ownership in a unit of fifty-three shares of stock. Additional units of one thousand may be issued to correspond with the demand, and, as is the custom with the unit type of trust, the stocks must first be deposited by the Depositor with the Depositary sufficient to make a new unit together with cash "to equal the accumulated earnings held by the Depositary as security for each then outstanding one thousand Detroit Bank Participation Shares."

The reasons for investing in bank stocks only are given as follows:

"(1) The rapid growth of American industrial enterprises has placed the banking institutions of our larger cities in an enviable position.

"(2) Supplying an essential service to all industries and demonstrating their ability to consistently expand their activities in both times of prosperity and depression, their

stocks are regarded today as one of the choicest of investments.

"(3) Shrewd investors are realizing that bank stocks not only conform to the requirements of the most conservative investor but also possess unusual earning and enhancement possibilities."*

No substitution of underlying securities is permitted, except in case of split-up of shares or recapitalization of the companies represented by the underlying securities. Furthermore, management is eliminated, the officers and the directors of the various banks having representative participation in directing the activities of the trust.

According to the trust, during 1929, the shares have appreciated 45% in value and have earned \$1.10 per share. As of December 1, 1929, holders of the shares were, on surrender of coupons attached, to receive "distributable dividend" equal to \$9.16 for 10 shares; \$22.90 for 25 shares; \$45.80 for 50 shares; \$91.61 for 100 shares.

Operating in practically the same way and with the same depositary and depositor as Detroit Bank Participation Shares, is Chicago Bank Participation Shares, created in October, 1929. This issue consists of 50,000 convertible participation certificates divided into fifty units made up of 1,000 shares each. Certificates are issued in bearer form with coupons attached, in denominations of 10, 25, 50, 100, 500 and 1,000 shares. Like the Detroit Bank Participation Shares, the holder

*All quotations taken from prospectus of the Trust.

of a unit may, if he so desires, withdraw, receiving for his 1,000 shares the actual stocks themselves together with any earnings as well as the part of the reserve fund represented.

In the case of the Detroit Bank Participation Shares there seems, however, to be no reserve fund, while the Chicago Bank Participation Shares provides for a maximum reserve of \$1,000 in cash to each unit in order to equalize the dividend payments and maintain a 6% minimum rate. Dividends comprise: "all regular and extra cash dividends; proceeds from the sale of stock dividends and stock purchase warrants; interest on reserve fund, which is the prevailing rate paid on certificates of deposit; and sale of fractional share of stock received from consolidations of any of the companies." Like many fixed trusts, therefore, the intent expressed is to give the shareholder all of the earnings, with the possible exception of the amount set aside for reserves. This is, to a certain extent, in keeping with the theory of permitting income to vary with the purchasing power of the dollar.

The objection to both of these types of companies seems to be limited diversification and the fact that the yield, over a period of years, is usually not much greater than 5 1/2% at a maximum. Stock dividends and rights, it is claimed equal as great a return as cash dividends, to say nothing of appreciation on the underlying stock. However, the two latter

items cannot be depended upon with any degree of certainty. While shares of this trust may appeal to the local investor in the vicinity of Detroit or of Chicago, there would not be as good a market for them elsewhere.

It can be seen from the above that the
value of this kind of work is not
in the value of the results, but in the
fact that a method has been found.

EASTERN BANKERS CORPORATION

A type of investment trust which places stocks of financial institution above all others as long-term investments is the Eastern Bankers Corporation of Jersey City, New Jersey, organized under the laws of Delaware in 1922 and claiming to be the oldest investment trust in America which operates exclusively in the stocks of financial institutions. According to its recent prospectus, the Eastern Bankers Corporation invests the major portion of its funds in stocks of leading national banks, state banks, and trust companies, although it is permitted to invest funds in any "strong, successful financial institution." It aims, furthermore, to invest only a small part of its authorized capital in any one particular security, so that in the event of liquidation, the loss of capital would be diminished. Although it deals exclusively in one kind of stock, it claims wide diversification of risk on the basis that banks, in turn, widely diversify their resources, supplying business with credit and thereby investing in practically every type of enterprise. "Bank stocks", this Trust advertises, "are an investment backed by the industries of a nation."

The Eastern Bankers Corporation aims to follow the pattern of the best British Financial Trusts or Investment Companies, first, as has been pointed out, in respect to diversification

THE EASTERN BANKING CORPORATION

A type of investment trust which raises money for
financial institutions above all others in the United States
is the Eastern Banking Corporation of New York City.
New Jersey, organized under the laws of Delaware in 1911 and
claiming to be the oldest investment trust in America which
operates exclusively in the stock of financial institutions.
According to its charter, the Eastern Banking Corporation
pursues its business for the purpose of the funds in which it
invests national banks, state banks, and trust companies,
although it is permitted to invest funds in any railroad, canal,
or other financial institution. It is also, furthermore, to
invest only a small part of its net assets capital in any one
financial institution, and in the event of liquidation, the
funds of regular shareholders are distributed. Although it deals exclu-
sively in one kind of stock, its diversified investment of
funds in the bonds of the U. S. and other financial institu-
tions, including foreign bonds, state and municipal securities,
in practice its every move is controlled by the directors.
These directors, who are elected by the shareholders
of the corporation.
The Eastern Banking Corporation also follows the pattern
of the best known financial trusts of European origin,
and, as has been pointed out, in respect to distribution

of risk; second, as regards expert management and constant supervision of the portfolio; third, in the matter of low operating costs.

Bankers Financial Trust, New York, a holding company controls Eastern Bankers Corporation, an investment trust; Bankers Capital Corporation, New York and New Jersey, a trading company dealing in bank, trust, title and insurance stocks; and American Fiduciary Corporation, Bridgeport, Conn., functioning as a trust company. There is a considerable interlocking of directors, the advantage claimed being that it enables the Eastern Bankers Corporation to keep in closer touch with the investment market. As Bankers Financial Trust owns a majority of the outstanding voting stock and derives a considerable portion of its income from the earnings of the latter, it would appear that the operating costs of these institutions would be enhanced by this association. Eastern Bankers Corporation states, however, that its average operating cost, exclusive of taxes, is exceedingly low,--1/2 of 1% of its authorized capital--and that it compares very favorably with the best types of British and Scottish Trusts in this respect.

The capital structure of the Company is as follows:

	<u>Authorized</u>	<u>Outstanding</u>
Common Stock..... (par value \$10.00)	250,000 shares	Varies from time to time due to additional shares being sold.
7% Cumulative Pref..... (par value \$100.00)	25,000 shares	

The Trust has built up a substantial reserve and has paid dividends each year. The following dividends have been declared on the common stock, prices of the latter shares being quoted daily in the New York City papers.

1923.....	1 1/2%
1924.....	3%
1925.....	6%
1926.....	6% plus 2%
1927.....	6% " 4%

The first was built as a substantial residence and was built
 between 1870 and 1875. The following table shows the
 location on the common street, and the date of the
 order placed for the same.

1875	.....
1876	.....
1877	.....
1878	.....
1879	.....
1880	.....
1881	.....

INSURANSHARES CORPORATION AND ITS AFFILIATED INVESTMENT
TRUST ACTIVITIES

In March, 1927, a few men pooled their capital to the extent of \$500,000. and organized Insuranshares Corporation New York with the intention of creating a revolving fund to invest in a selected list of insurance and bank stocks. They deposited their securities with the City Bank Farmers Trust Company as trustees. Finding this idea a profitable one, they issued shares under the name of Insuranshares Trust Certificates and sold them to the public in order to secure more money in which to invest again in stocks similar to their first venture.

As the duties of Insuranshares Corporation increased, the supervision of the investment policies and all research and analytical work was transferred to Insuranshares Management Company which was formed simultaneously with the Corporation to assume this work. The parent organization now handles the sale of certificates and acts as an underwriting agent.

Insuranshares Corporation New York and Insuranshares Management Company constitute a "dual hub" as the Trust expresses it. About them, at the present time, revolve the activities of the three investment companies, Insuranshares Trust Certificates, now succeeded by Insuranshares Certificates Incorporated, Insuranshares Corporation of Delaware, and the Sterling Securities Corporation. The latter organization, which deals with

INVESTMENT CORPORATION AND ITS ASSOCIATED INVESTMENT
TRUST COMPANY

In March, 1917, a few men pooled their capital to the extent of \$500,000. and organized Investment Corporation of New York with the intention of creating a revolving fund to invest in a selected list of insurance and bank stocks. They deposited their contributions with the City Bank through the company as trustees. Finding this was a profitable way, they decided that under the name of Investment Corporation Trust Corporation and sold them to the public in order to secure more money in which to invest again in stocks similar to their first venture.

As the list of investments was enlarged and all research and supervision of the investment business and all research and analytical work was transferred to Investment Corporation, the company which was formed, gradually with the corporation in March, 1917. The entire organization was located in the City of New York and was at the time a revolving fund.

The corporation was organized in New York and Insurance Company of New York was organized in New York as the first company. It was then, at the time, that the corporation was organized. At the time of its organization, Investment Corporation Trust Corporation, was organized by Investment Corporation Trust Corporation, and the Insurance Corporation of New York, and the Insurance Corporation of New York. The latter corporation, which was then

general market items, is managed by its own Board of Directors, but as all the activities of these groups are interlocking, Sterling Securities Corporation depends to a considerable extent upon Insuranshares Management Company for its statistical information and research.*

A few of the reasons offered as to why Insuranshares Corporation favors insurance stocks and bank stocks for investment summarized are as follows:

(1) The practical certainty of the continuance of insurance companies and banks as a permanent part of our business structure. These companies prosper and grow even during periods of depression.

(2) The steady growth of the assets of both types of institutions. (Elaborate charts to demonstrate the remarkable record of the companies underlying Insuranshares have been prepared by the Insuranshares Management Company. According to the figures shown, "assets of insurance companies generally have increased 14 times faster than the population of the United States. In the period 1900 to 1927, life insurance assets alone increased 726%.")**

(3) Efficiency, competency, and honesty of the management of insurance companies is particularly apparent.

(4) Returns to stockholders of both banks and insurance companies have increased steadily.

(5) Both insurance and bank stocks are readily marketable.

(6) Banks and insurance companies set up reserves and invest reserves and surplus in a way which enhances the value of their securities.

Insuranshares Trust Certificates were first offered to the public in April, 1927. From that date until February 15,

*For a detailed discussion of Sterling Securities Corporation, see page 125

**Sales Manual, Insuranshares Corporation of Delaware, page 1

General office, is managed by the same person
person, but as all the activities of these groups are
interlocking, similar facilities deposited in
a similar office under the same management
may be the statistical facilities and records.
A list of the various groups and their records
concerning them, is a list of the records and
information concerning them.

(1) The general office of the committee
has been organized and is a permanent unit of the
committee. It is the only office of the committee
which is not a part of the committee.
(2) The general office of the committee
has been organized and is a permanent unit of the
committee. It is the only office of the committee
which is not a part of the committee.
(3) The general office of the committee
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(4) The general office of the committee
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(5) The general office of the committee
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(6) The general office of the committee
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(7) The general office of the committee
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(8) The general office of the committee
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(9) The general office of the committee
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committee. It is the only office of the committee
which is not a part of the committee.
(10) The general office of the committee
has been organized and is a permanent unit of the
committee. It is the only office of the committee
which is not a part of the committee.

1928, five series known respectively as A-27, C-27, F-27, H-27, and B-28 were issued by Insuranshares Corporation of New York. The underlying stocks in the five different portfolios represented, on an average, 52 insurance companies and seven banks. The combined initial value of the five series amounted to \$12,450,000.00. By June 30, 1929, the amount had increased 46% due to profits and accrued appreciation.

In September, 1929, the Insuranshares Certificates Incorporated was organized under the laws of Maryland with an authorized capitalization of 1,180,000 shares of no par value common stock. The corporation was created for the purpose of combining the five series of investments into a single organization. The idea of consolidating the certificates was to gain the advantage of a corporate form. The trust certificates were not eligible for listing on the Exchange, so the new corporation was formed to facilitate the marketing of securities and to secure listing privileges.

In effecting the exchange of Certificates, the liquidating value of October 31, 1929 was taken as a basis. This was \$18.42 against \$20 par value of the original shares. The stock of the new corporation was issued at \$20. per share. Insuranshares Certificates Incorporated commenced business with \$18,000,000.00 of insurance and bank stocks in its portfolio as a result of the exchange. Although the usual policy of the new concern will be

1928, five series were reported as 1-27, 2-27, 3-27, 4-27, 5-27, 6-27, 7-27, 8-27, and 9-27 were issued by the American Corporation of New York. The underlying assets in the five different portfolios represented, on an average, 37 insurance companies and seven banks. The combined initial value of the five series amounted to \$12,450,000. By June 30, 1930, the amount had increased to \$15,000,000 and secured appreciation.

In January, 1930, the American Corporation decided to reorganize the assets of the five series of policies into a single organization. The five series of investments were to form the basis of consolidating the certificates was to give the advantage of a corporate form. The first certificates were not eligible for listing on the Exchange, so the new corporation was formed to facilitate the marketing of securities and to secure listing privileges.

In February, 1930, the American Corporation, the listing value of January 31, 1930 was taken as a basis. This was \$12,450,000 and the value of the original shares. The first of the new certificates was issued at \$10.00 per share. Investments in the new corporation were made with \$12,450,000.00 of insurance and bank assets to the certificate as a result of the reorganization. Although the total value of the new corporation was

to invest in insurance and bank stocks, one change has been made, namely, that the Board of Directors, at its discretion, may invest funds in the general security market if it considers such an action temporarily profitable.

The high and low for 1929 of Insuranshares was 16 and 12 respectively. In January, 1930 it was priced around 15.

Insuranshares Corporation of Delaware, organized in March of 1929, by its charter grants similar discretion to the management in the matter of investing in securities other than bank stocks when conditions would indicate it wise to do so. The authorized capitalization of the Corporation consists of two classes of common stock, both having no par value. Class A is retained by the management, and Class B is available to the public. The Goldman Sachs Trading Corporation purchased for its own account one-third of all the Class A common stock initially issued with the privilege of purchasing one-third of any future offerings. As the Goldman Sachs Trading Corporation is represented on the Board of Directors of both the Corporation and the Management Company, it is apparent that there is considerable interlocking of directorates.

Both classes of stock have voting rights, but Class B, in the election of Directors, has 3 votes for each share held, thereby giving the management control. Class A stock is entitled to 45¢ per share in 1929 and 60¢ per share annually

to issue an instruction and have issued, one which was
made, namely, that the Board of Directors, at its discretion,
may issue bonds in the general security of the corporation
such as action temporarily profitable.
The high low for 1935 of Investments was 15 and 18
respectively. In January, 1939 it was raised to 20.
Investments Corporation of the State, organized in 1930
of 1935, by the charter given similar discretion to the manager
vest in the matter of investing in securities other than bank
stocks when conditions would make it wise to do so. The
authorized capitalization of the corporation consists of two
classes of common stock, both having no par value. Class A is
retained by the management, and Class B is available to the
public. The Board may issue further authorized securities for the
and reserve and sell at all the Class A common stock initially
issued with the restriction of increasing the total of any future
offerings. As the Board may issue further securities as to the
amount of the authorized capital of the corporation, it is
authorized to issue, it is authorized that there is no limitation
on the amount of such issues.
Both classes of stock have voting rights, but Class A, in
the election of Directors, has 3 votes for each share held,
whereas Class B has one vote. Class A stock is
classified as non-cumulative and non-voting.

thereafter, with the right to 85% of all additional dividends. Class B stock receives the remaining 15%. Annual dividends need not be declared only to the extent of one-fifth of the earnings in excess of 60¢ per share on the Class A Common Stock. The offering price per share was \$21 7/8. In case of dissolution, Class A stock is to receive \$20 per share together with unpaid non-cumulative dividends for the year then current and 85% of all additional assets.

Insuranshares Management Company receives as compensation for its services only the earnings obtained from its ownership of the Class B common stock. The Trust offers as reasons for issuing two classes of stock, first, that the management is forced to prove its ability if it is to receive any compensation for itself; second, that the holdings of the public are thus assured of greater earnings. The practice is not looked upon with favor by some authorities because it is possible for the management to contribute but little to the enterprise, and, having nothing to lose, it may "play big," hoping to win. In the event of a loss, the investor stands the consequences. In this case, however, the shares were paid for in cash by the Management Company.

By the articles of Incorporation, the investment of the Assets is limited as follows:

1. "Not more than 10% in the stock of any insurance company, domestic or foreign.

2. "Not more than 20% in the stocks of foreign insurance companies not licensed to do business in at least five states of the United States or in Canada.

3. "Not more than 10% in the stock of any bank or trust company, domestic or foreign, which must have at least \$500,000 paid in capital and equal or greater surplus and undivided profits.

4. "Not more than 20% in the securities of any corporation, syndicate, association or trust engaged in a type of business similar to this corporation, except Insuranshares Trust Certificates.

5. "Not more than 20% in any one foreign country and no investment in securities involving unlimited liability."

The following is a summary as of September 30, 1929 of the percentage of the investment in each type of security to the total amount invested at cost: *

Group	Percentage
Banks and Trust Companies.....	17.8%
Life Insurance Companies.....	15.6%
Casualty Insurance Companies.....	25.2%
Fire Insurance Companies.....	36.9%
Foreign Insurance Companies.....	.4%
Railroads.....	.3%
Miscellaneous.....	3.8%

Well-balanced diversification is claimed in that insurance companies are themselves quasi-investment trusts, frequently having hundreds of investments distributed among all kinds of industries, national and international, and including government, state, county, and municipal bonds.

The fact that these various insurance companies write

*Report to stockholders, October 8, 1929

policies for a great many different people in all kinds of business and all over the country relieves them of being dependent on any one type of industry or any one section of the country. As to bank stocks, they, too, depend upon the prosperity of the country as a whole rather than upon any particular type of industry.

As the corporation was organized in March 1929, it has paid no dividends to date. In a letter sent to stockholders October 8, 1929, the net earnings on Class A stock for the first five months was given as .38 or .91 on an annual basis, and .58 on September 30, 1929, or 1.16 on an annual basis. Unrealized appreciation on the portfolio at the same time amounted to \$1,244,000.00 approximately. After all deductions and provisions for taxes were made, the letter stated that this would amount to an additional \$1.24 for the half year period on each share of the Class A common stock of which there are 750,000 shares outstanding.

Provision is made that dividends will be paid, only provided that they are earned, at a fair rate of return to stockholders. The Corporation, moreover, follows the practice of setting up reserves and surplus. An initial paid-in surplus of \$5. per share was required at the time of organization. Provision is also made that an amount up to four-fifths of earned profits may be set aside to be invested and

...for a great many different people in all parts of
 the country and all over the country relative to the
 defendant on any one type of industry or any one section
 of the country. As to bank stocks, they, too, depend upon
 the prosperity of the country as a whole rather than upon
 any particular type of industry.
 As the corporation was organized in March 1901, it has
 paid no dividends to date. In a letter sent to stockholders
 October 2, 1902, the net earnings on Glass & Wood for the
 first five months was given as \$100,000 or \$100,000 in annual profits,
 and \$250,000 on September 2, 1902, or \$1.16 on an annual basis.
 Dividends were paid on the profits of the year 1901
 amounting to \$1,144,000.00 approximately. After all deductions
 and provisions for taxes were made, the latter stated that
 this would amount to an amount of \$1.25 for the first year
 period on each share of the Glass & Wood stock at \$100.
 There are 750,000 shares of stock.
 Provision is made that dividends will be paid, only
 provided that they are earned, and a full vote of return to
 stockholders. The corporation, however, follows the prac-
 tice of setting up reserves and surplus. An initial paid-up
 capital of \$5,000,000 was reported at the time of incor-
 poration. Provision is also made that in order up to four-
times of earned profits may be set aside to be invested and

reinvested in the interest of the stockholders.

In conclusion, it appears that all of the affiliated investment trust activities of the Insuranshares Corporation are well organized and managed. The drawback undoubtedly is that the cost of management and the expense of statistical and research work will probably leave but a small amount to be distributed among the stockholders. In the case of Insuran shares Certificates Incorporated, the Management Company is to receive "15% of all net earnings after payment of all charges and after payment or setting aside for payment of \$150,000. quarterly on the common stock of the corporation."*

As the stock is now listed on the New York Stock Exchange, it will be obliged to conform to the best practices. The outlook for both Trusts is promising. They offer a satisfactory investment which should not fluctuate greatly with changing economic conditions.

*Insuranshares Corporation and its Affiliated Investment Trust Activities, pamphlet, page 21

THE PHILADELPHIA JOINT STOCK TRUST

The Philadelphia Joint Stock Trust was organised by Brooke, Stokes & Co., bankers, members of the Philadelphia Stock Exchange, with the Girard Trust Company as trustee. The investment trust agreement of May 1, 1926 permits of investment primarily in the shares of stock of Joint Stock Land Banks, although for a temporary period funds may be invested in bonds of Joint Stock Land Banks and bonds of the United States Government. In so far as can be ascertained, this is the only investment trust specializing in the securities of Joint Stock Land Banks.

Certificates of a par value of \$100.00 may be issued in any quantity. A unique provision is made, however, that in the event that the Trust is not able to invest all of its funds and has too much cash on hand, certificates are callable for redemption to the extent of the amount of the uninvested cash in the hands of the Trustee. Thirty days' notice, however, specifying the redemption price, must be given shareholders.

Many estates trusts exist for twenty-one years after the death of the last survivor, or until a year stipulated, but this trust may be liquidated at any time that the managers, Brooke, Stokes & Co. deem it for the best interest of all concerned.

The managers are given broad powers and may select the

The United States Joint Fact-Finding Commission
The United States Joint Fact-Finding Commission was organized by
Executive Order, December 10, 1947, pursuant to the United States
Investment Trade Agreement of May 1, 1948, pursuant to which
the United States and the United Kingdom agreed to establish a
Joint Fact-Finding Commission to investigate and report on the
causes of the economic difficulties in the United Kingdom.
The Commission was organized by Executive Order, December 10, 1947,
and its first report was submitted to the President on May 1, 1948.
The Commission's report was published in the United States
Government Printing Office, Washington, D.C., in 1948.
The Commission's report was also published in the United Kingdom
by the Her Majesty's Stationery Office, London, in 1948.
The Commission's report was also published in the United States
by the United States Government Printing Office, Washington, D.C.,
in 1948.

stocks constituting the portfolio and at their discretion direct the Trustee to sell or exchange any securities. They may sell back to the trust estate, at the market value, securities which they own individually. For services rendered to the Trust, the managers are entitled to a commission not to exceed 5% of the net income. The latter item is held to include both interest and dividends received by the Trust as well as all profits--minus losses--incurred by selling securities. In addition, a commission of 1% is charged for selling and purchasing securities.

The Trust claims an advantage in that it is able to purchase blocks of stock at a price below the open market by dealing direct with the Joint Stock Land Banks. The yield obtainable, it states, is better than that which can be secured on the stocks of national banks and trust companies.

The investor must consider that double liability is attached to Joint Stock Land Banks, as to all other bank stocks. The Trust would be responsible for any assessment on stock up to the par value of the shares. While some Joint Stock Land Banks have been conservatively managed, a number of the smaller ones, with unusual overhead expenses, have had a poor record.

Evidently this Trust is one of the few that has made no appeal to the American public. In a letter to the writer dated January 13, 1930, the statement is made that "only a comparatively.

January 15, 1930, the respondent is made that only a representative
appeal to the American public. The answer to the writer's
evidence that there is and in the fact and made to
and, with several overseas expenses, gave him a poor result.
The fact that he has been most effectively handled, a number of the smaller
to the fact that the larger. This same fact that
the fact would be responsible for any assessment of stock in
the fact to be a good thing, and to all other fact that
The answer that contains that contains that it is
the fact of a small part and that part of
this, it is better, the better fact that can be assessed on
the fact with the fact that fact. The fact of
one a check of stock at a fact that the fact that by
The fact that an advantage is that it is to the
presented accounts.

In addition, a statement of it is better, for selling and
as all fact that I was interested by and the accounts.
claim with interest and dividends received by the fact as well
around 15 of the fact that. The fact that is held to be
to the fact, the accounts are related to a statement not to
particular which they own individually. For accounts presented
and will back to the fact that of the fact that.
almost the fact as well as accounts and accounts. The
to the accounts the fact that and at their discretion

few shares of the Philadelphia Joint Stock Trust certificates have been distributed and there is little or no market for them."

The names of the following persons have been furnished and are in full or in part for the

9

UNITED STATES SHARES GROUP

The United States Shares Group, under management of the United States Shares Corporation, consists of ten separate investment trusts of the limited management type. The object of the founders was to attract all classes of investors by means of these different units representing several types of holdings. Certificates may be purchased in denominations of five shares and multiples thereof. Series A and Series A-1 are made up of common stocks; Series C-1, C-2, and C-3 and Series D consist of Bank Stock Shares; Series F, Insurance Stock Shares, Series H, mostly of Standard Oil Stocks. These were offered to the public as follows:

Series	Initial Offering	Price Offered Initially	Price Sept. 1, 1928	Bid Jan. 6, 1930
A	May, 1927	12 1/2	15 3/4	13 1/2
A-1	Jan., 1928	12	16	13 5/8
C-1	May, 1927	22	38 3/8	35 3/4
C-2	May, 1927	22	39 3/8	37
C-3	Mar., 1928	20 5/8	34 3/4 (June)	20 3/4
F	Mar., 1929	25	26	16 1/4
H	May, 1929	15	15 5/8	not listed

In the case of Series A and A-1, the trust claims that it sold many of the underlying securities that had appreciated in

UNITED STATES DEPARTMENT OF AGRICULTURE

The United States Department of Agriculture, in order to protect the public interest in the sale of certain classes of livestock, has issued the following regulations:

Section 1. The following classes of livestock shall be subject to the provisions of this act:

Section 2. The following classes of livestock shall be subject to the provisions of this act:

Section 3. The following classes of livestock shall be subject to the provisions of this act:

Section 4. The following classes of livestock shall be subject to the provisions of this act:

Section 5. The following classes of livestock shall be subject to the provisions of this act:

Section 6. The following classes of livestock shall be subject to the provisions of this act:

Section 7. The following classes of livestock shall be subject to the provisions of this act:

Section 8. The following classes of livestock shall be subject to the provisions of this act:

Section 9. The following classes of livestock shall be subject to the provisions of this act:

Section 10. The following classes of livestock shall be subject to the provisions of this act:

Class of Livestock	Regulation No.	Regulation No.	Regulation No.	Regulation No.	Regulation No.	Regulation No.	Regulation No.	Regulation No.	Regulation No.
Cattle	1	2	3	4	5	6	7	8	9
Horses	10	11	12	13	14	15	16	17	18
Swine	19	20	21	22	23	24	25	26	27
Sheep	28	29	30	31	32	33	34	35	36
Goats	37	38	39	40	41	42	43	44	45
Donkeys	46	47	48	49	50	51	52	53	54
Mules	55	56	57	58	59	60	61	62	63
Camels	64	65	66	67	68	69	70	71	72
Elephants	73	74	75	76	77	78	79	80	81
Lions	82	83	84	85	86	87	88	89	90
Tigers	91	92	93	94	95	96	97	98	99
Bears	100	101	102	103	104	105	106	107	108
Wolves	109	110	111	112	113	114	115	116	117
Hyenas	118	119	120	121	122	123	124	125	126
Leopards	127	128	129	130	131	132	133	134	135
Cheetahs	136	137	138	139	140	141	142	143	144
Jaguars	145	146	147	148	149	150	151	152	153
Panthers	154	155	156	157	158	159	160	161	162
Snakes	163	164	165	166	167	168	169	170	171
Scorpions	172	173	174	175	176	177	178	179	180
Spiders	181	182	183	184	185	186	187	188	189
Bees	190	191	192	193	194	195	196	197	198
Ants	199	200	201	202	203	204	205	206	207
Termites	208	209	210	211	212	213	214	215	216
Flies	217	218	219	220	221	222	223	224	225
Moths	226	227	228	229	230	231	232	233	234
Butterflies	235	236	237	238	239	240	241	242	243
Grasshoppers	244	245	246	247	248	249	250	251	252
Crickets	253	254	255	256	257	258	259	260	261
Locusts	262	263	264	265	266	267	268	269	270
Beetles	271	272	273	274	275	276	277	278	279
Worms	280	281	282	283	284	285	286	287	288
Snails	289	290	291	292	293	294	295	296	297
Slugs	298	299	300	301	302	303	304	305	306
Ticks	307	308	309	310	311	312	313	314	315
Mites	316	317	318	319	320	321	322	323	324
Parasites	325	326	327	328	329	330	331	332	333
Diseases	334	335	336	337	338	339	340	341	342
Injuries	343	344	345	346	347	348	349	350	351
Deaths	352	353	354	355	356	357	358	359	360
Losses	361	362	363	364	365	366	367	368	369
Recovery	370	371	372	373	374	375	376	377	378
Prevention	379	380	381	382	383	384	385	386	387
Control	388	389	390	391	392	393	394	395	396
Inspection	397	398	399	400	401	402	403	404	405
Enforcement	406	407	408	409	410	411	412	413	414
Penalties	415	416	417	418	419	420	421	422	423
Exemptions	424	425	426	427	428	429	430	431	432
Appeals	433	434	435	436	437	438	439	440	441
Revisions	442	443	444	445	446	447	448	449	450
Amendments	451	452	453	454	455	456	457	458	459
Supplements	460	461	462	463	464	465	466	467	468
Interpretations	469	470	471	472	473	474	475	476	477
Administrative	478	479	480	481	482	483	484	485	486
Procedural	487	488	489	490	491	492	493	494	495
Technical	496	497	498	499	500	501	502	503	504
Legal	505	506	507	508	509	510	511	512	513
Historical	514	515	516	517	518	519	520	521	522
Geographical	523	524	525	526	527	528	529	530	531
Biographical	532	533	534	535	536	537	538	539	540
Chronological	541	542	543	544	545	546	547	548	549
Thematic	550	551	552	553	554	555	556	557	558
Topical	559	560	561	562	563	564	565	566	567
Subject	568	569	570	571	572	573	574	575	576
Index	577	578	579	580	581	582	583	584	585
Appendix	586	587	588	589	590	591	592	593	594
Glossary	595	596	597	598	599	600	601	602	603
Notes	604	605	606	607	608	609	610	611	612
References	613	614	615	616	617	618	619	620	621
Citations	622	623	624	625	626	627	628	629	630
Footnotes	631	632	633	634	635	636	637	638	639
Endnotes	640	641	642	643	644	645	646	647	648
Supplements	649	650	651	652	653	654	655	656	657
Amendments	658	659	660	661	662	663	664	665	666
Revisions	667	668	669	670	671	672	673	674	675
Interpretations	676	677	678	679	680	681	682	683	684
Administrative	685	686	687	688	689	690	691	692	693
Procedural	694	695	696	697	698	699	700	701	702
Technical	703	704	705	706	707	708	709	710	711
Legal	712	713	714	715	716	717	718	719	720
Historical	721	722	723	724	725	726	727	728	729
Geographical	730	731	732	733	734	735	736	737	738
Biographical	739	740	741	742	743	744	745	746	747
Chronological	748	749	750	751	752	753	754	755	756
Thematic	757	758	759	760	761	762	763	764	765
Topical	766	767	768	769	770	771	772	773	774
Subject	775	776	777	778	779	780	781	782	783
Index	784	785	786	787	788	789	790	791	792
Appendix	793	794	795	796	797	798	799	800	801
Glossary	802	803	804	805	806	807	808	809	810
Notes	811	812	813	814	815	816	817	818	819
References	820	821	822	823	824	825	826	827	828
Citations	829	830	831	832	833	834	835	836	837
Footnotes	838	839	840	841	842	843	844	845	846
Endnotes	847	848	849	850	851	852	853	854	855
Supplements	856	857	858	859	860	861	862	863	864
Amendments	865	866	867	868	869	870	871	872	873
Revisions	874	875	876	877	878	879	880	881	882
Interpretations	883	884	885	886	887	888	889	890	891
Administrative	892	893	894	895	896	897	898	899	900
Procedural	901	902	903	904	905	906	907	908	909
Technical	910	911	912	913	914	915	916	917	918
Legal	919	920	921	922	923	924	925	926	927
Historical	928	929	930	931	932	933	934	935	936
Geographical	937	938	939	940	941	942	943	944	945
Biographical	946	947	948	949	950	951	952	953	954
Chronological	955	956	957	958	959	960	961	962	963
Thematic	964	965	966	967	968	969	970	971	972
Topical	973	974	975	976	977	978	979	980	981
Subject	982	983	984	985	986	987	988	989	990
Index	991	992	993	994	995	996	997	998	999
Appendix	1000	1001	1002	1003	1004	1005	1006	1007	1008

In the case of sections 1 and 2, the provisions of this act shall apply to all livestock of the following classes:

Section 1. The following classes of livestock shall be subject to the provisions of this act:

Section 2. The following classes of livestock shall be subject to the provisions of this act:

value and held the profits obtained in the form of cash. As a result of this conservative practice, the prices of Series A, according to figures prepared by the Management, dropped 9.3%, while Series A-1 dropped only 4.6% from October 1 to November 15, 1929. This was in contrast with a decline of 33.4% as shown by the Dow-Jones average of 20 industrial stocks. According to the above chart, the investor who bought at the initial offering price and held until Jan. 6, 1930 broke about even.

Not as good results were shown for Series C-1, C-2, C-3, Bank Stock Trust Shares, which declined on an average about 34% against an average drop of 45.9% for 25 leading New York Bank stocks which were used by the United States Shares Corporation for daily comparison purposes. Nevertheless, according to the above chart only Unit C-2 fell any below the offering price, and that but 1 1/4 points.

Series F, Insurance Stock Trust Shares, fell 28.6% as against an average decline of 36.8% of 52 leading insurance companies the data for the later being kept by the United States Shares Corporation for the purpose of making daily comparisons. This Series did fall off considerably from asking price, however, according to the above chart.

Series H, Key Industry Trust Shares, did exceptionally well, it is claimed, dropping 10.2% against a decline of 26.1% of 16 selected oil stocks, the latter decline being that given by

Standard Statistic Corporation's Index.

Recently, Series A-2 has been added to the group. It is intended to embody a new idea in the unit type of investment trust. There is nothing particularly unusual about the plan except that it attempts to combine the features of both speculation and investment. Series A-2 will be made up of three funds, "unit", "collateral", and "reserve". The unit idea is similar to that employed in the case of Series A-1, except that instead of 100 common stocks, only 50 are included.

About one-half of the entire fund will, as a rule, be invested in common stocks, although provision is made in the indenture that as little as 15% of the entire value of the trust may be so invested. Cash or variable amounts of junior or senior securities "in which each shareholder has a direct proportionate interest" constitute the collateral fund. The market profits from these two funds will make up the reserve fund. The idea is to stabilize the minimum income and maintain dividends during periods when market conditions may not be favorable. Of course, to do this it is necessary that the management be alert to take advantage of every situation.

Accordingly, the management is given full power to sell and substitute one stock for another as it deems advisable. Compensation is payable semi-annually to the Corporation "limited to 1/10 of the appreciation, payable only out of 1.10 of the market

Transcript of the deposition of the witness.

Question: Now, Series A-2 has been added to the list, is it?

Answer: Yes, it has been added to the list of the witnesses.

Question: There is nothing particularly unusual about the fact

except that it attempts to combine the features of both Series

Series A-1 and Series A-2. Series A-2 will be taken up at once.

Question: Now, "collateral", and "residual", the latter is

added to the list of Series A-1, except that

added to the common stock, and to the list.

Answer: One-half of the value of the stock, as a rule, is

vested in common stock, although sometimes it may be the

entire stock as little as 1% of the value of the stock.

Question: Now, Series A-2, each of the various features of Series A-2

is added to the list of Series A-1, and a direct proportion

is added to the list of Series A-1. The common stock

is added to the list of Series A-1. The common stock

is added to the list of Series A-1. The common stock

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is added to the list of Series A-1. The common stock

profits realized during the preceding six months but not less than 1/4 of 1% of the capital value as defined by the indenture."

It is the policy of the trust to keep the owners of shares informed by means of reports and through "The Shareholder", a pamphlet published regularly by the United States Shares Corporation. The underlying securities representing each unit are published together with the number of shares.

Provided the trust is able to maintain a staff of investment specialists capable of taking care of so many different types of stocks, the plan of the United States Shares Corporation is satisfactory. The company has met with some adverse criticism, but changes in its policy have already placed it in a more favorable light. The usual conversion and cash redemption privileges are granted, and the market for the shares is quoted daily in the metropolitan papers under the heading "Investment Trusts".

Bond Investment Trusts

THE UNIVERSITY OF CHICAGO

BOND INVESTMENT TRUST

The purpose of the Bond Investment Trust is "to provide a form of investment which encourages thrift and allows a subscriber for a large or small amount to secure the advantages of high grade securities, responsibility of competent management, and strength of investment provided by diversity".* The Trust was organized under the auspices of Harris, Forbes & Company, Inc., Boston, Massachusetts, depository, and three of the five Trustees are, or have been, officers of this house.

The Bond Investment Trust is of the fund-participation type and certificates of "beneficial interest" are issued in denominations of \$100.00 and multiples thereof. These certificates are non-assessable and may be transferred at the office of the depository. Up to the present time, interest has been paid on certificates at the rate of 5%. As the Massachusetts Income Tax on the underlying bonds is paid by the Trust, certificate holders residing in Massachusetts are exempt from payment on dividends received, although they must pay the Federal Income Tax.

The Trustees are given broad powers. They may invest and reinvest at their discretion "as if absolute owners of the Trust Fund." Power is given them to borrow money at any time and "to pledge, as collateral security for such loan, any personal property belonging to the Trust Fund provided, however,

*Declaration of Trust, page 1

THE INVESTMENT TRUST

The purpose of the Investment Trust is to provide a form of investment which encourages thrift and affords a means of saving for a large or small amount to secure the advantages of high grade securities, responsibility of complete management, and efficient use of investments provided by the Trust. The Trust is organized under the auspices of the Trust Company, Inc., located at 100 Broadway, New York City, and those of the Trust Company are, or may be, officers of the Trust. The Trust is organized as of the form of a corporation, and its capital is divided into shares of \$100.00 and multiples thereof. These shares are sold on a subscription basis and may be transferred at the option of the subscriber. Up to the present time, interest has been paid on certificates at the rate of 4% per annum compounded annually on the underlying assets is paid by the Trust, net of the income tax on the underlying assets are except from payment of income tax. Although they must pay the Federal income tax on dividends received, although they must pay the Federal income tax. The Trusts are known as closed funds. They may invest and reinvest as their discretion in all assets owned by the Trust and may also give them to be the assets at any time. They may, as a whole, an additional security for each share, any national or other help in the Trust and may, however.

Declaration of Trust, Page 1

that no loan shall be contracted for, so that the aggregate amount of such loans outstanding shall at such time exceed, in the judgment of the Trustees, twenty-five per cent of the total amount of the personal property of the Trust Fund." *

The Trustees are permitted to decide what charges and expenses shall be made to income and what shall be regarded as capital. They may set aside income not to be distributed in a Surplus Fund. Trustees may assign their powers to any other Trustee or Trustees for a period of six months, if they desire, although it is provided in the Declaration of Trust that there must always be at least three Trustees represented.

At the present time, the Trustees are serving without compensation, although provision is made that this may be 5%, but not more, of the gross income.

The underlying securities, as of April, 1929, consisted of bonds of every description including first mortgage, first and refunding mortgage, sinking fund, gold debentures, gold notes, and innumerable other types. These securities represent a great many corporations, states, cities, and governments both at home and abroad. Most of these bonds showed a yield of 5% to 7 1/2%. The total par value of all investments in April was \$2,416,000, not more than 2 1/4% of which was invested in any one security.

*Declaration of Trust, page 3

that no loan shall be contracted for, or that the aggregate amount of such loans shall not exceed the amount of the income of the Trusts, twenty-five per cent of the total income of the general property of the Trust Fund.

The Trustees are permitted to decide what charges and expenses shall be made to income and what shall be regarded as capital. They may not make income out of the principal in a capital fund. Trustees are given the power to pay out of income of Trusts for a period of six months, if they desire, although it is provided in the Declaration of Trust that there shall always be at least three Trusts represented.

At the present time the Trustees are carrying without compensation, although entitled to make, what they may be doing out of the income of the Trusts.

The underlying securities, as of April 1, 1900, consisted of bonds of the Government, United States bonds, first and second mortgage bonds, and other bonds, gold notes, and other securities. These securities represent a great many corporations, banks, of the, and governments both at home and abroad. List of these bonds shows a value of \$1,000,000. The total net value of all investments in April 1900 was \$1,000,000. List of what was invested in any one security.

In a letter from the Secretary & Treasurer, Robert S. Weeks, to the writer, January 10, 1930, the statement is made, "As all of the funds of the Bond Investment Trust are invested in Bonds, the recent stock market break of course had no bad effect, in fact, it had an improving effect as bond prices have been rising for the last month or more.----The Bond Investment Trust has no appeal whatever to the speculator."

is a letter from the Secretary of the Board of Directors, dated January 10, 1920, in which it is stated that the Board of Directors has decided to pay a dividend of \$1.00 per share on the common stock of the company for the year ending December 31, 1919. The dividend is payable to the stockholders of record as of January 1, 1920. The dividend is payable in cash to the stockholders who are entitled to it. The dividend is payable to the stockholders who are entitled to it. The dividend is payable to the stockholders who are entitled to it.

SECURITY NATIONAL BOND INVESTMENT TRUST

Security National Bond Investment Trust was created by the Security National Bank of St. Louis in 1927 as a mutual investment plan, "each investor receiving an undivided beneficial interest in the fund." * The policy of the house appears to be most conservative. Investments are restricted to bonds and first mortgage real estate loans. The Trust emphasizes the fact that it does not permit investment in common or preferred stock at any time.

Safety of principal is its first consideration and a fair return, its second. In its literature, the Trust states in plain, straightforward language "Your return may be as low as 3 1/2%, but it may be as high as 5% or 5 1/2%." ** There is no promise of anything more than the ordinary savings bank offers.

Appeal is made to several classes of people. Those who have large sums to invest may buy twenty shares or more at the market value which may be over or under \$50.00, the price of the shares of the original issue. The investor who wishes may make regular monthly payments, ranging upward from a minimum of \$50.00 per month. Subscription, however, must be for a minimum of twenty shares, totalling \$1000. The monthly payments are made against this amount with a charge for any unpaid balances. Net earnings are distributed semi-annually

*The Security National Bond Investment Trust, pamphlet, page 1

**Loc.cit., page 8

SECURITY NATIONAL BOND INVESTMENT TRUST

Security National Bond Investment Trust was created by the Security National Bank of St. Louis in 1937 as a mutual investment plan. Each investor receiving an additional bond-
ficial interest in the Trust. The policy of the Trust appears to be most conservative. Investments are restricted to bonds and short maturity high grade issues. The Trust organizes the fact that it does not permit investment in common stock at any time.

Policy of principal is to invest conservatively and a high return, low volume. In the interim, the Trust states in this advertisement that it is not to be an open fund. It may be as high as \$1.50 a share. There is no promise of earnings more than the ordinary average bank return.

Trust is open to several classes of people. Those who have been in the market may buy twenty shares or more at the lower value which may be over or under \$10.00. The policy of the Trust is to invest in high grade issues. The investor who wishes to buy twenty shares should be prepared to pay a minimum of \$10.00 per share. Subscriptions, however, may be for a minimum of twenty shares, totaling \$200. The maximum payment for each share will be \$1.50. The Trust is a mutual fund. It is not a bank. It is not a company. It is a trust.

The Security National Bond Investment Trust, established, 1937, 1938, 1939, 1940, 1941, 1942, 1943, 1944, 1945, 1946, 1947, 1948, 1949, 1950, 1951, 1952, 1953, 1954, 1955, 1956, 1957, 1958, 1959, 1960, 1961, 1962, 1963, 1964, 1965, 1966, 1967, 1968, 1969, 1970, 1971, 1972, 1973, 1974, 1975, 1976, 1977, 1978, 1979, 1980, 1981, 1982, 1983, 1984, 1985, 1986, 1987, 1988, 1989, 1990, 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 2156, 2157, 2158, 2159, 2160, 2161, 2162, 2163, 2164, 2165, 2166, 2167, 2168, 2169, 2170, 2171, 2172, 2173, 2174, 2175, 2176, 2177, 2178, 2179, 2180, 2181, 2182, 2183, 2184, 2185, 2186, 2187, 2188, 2189, 2190, 2191, 2192, 2193, 2194, 2195, 2196, 2197, 2198, 2199, 2200, 2201, 2202, 2203, 2204, 2205, 2206, 2207, 2208, 2209, 2210, 2211, 2212, 2213, 2214, 2215, 2216, 2217, 2218, 2219, 2220, 2221, 2222, 2223, 2224, 2225, 2226, 2227, 2228, 2229, 2230, 2231, 2232, 2233, 2234, 2235, 2236, 2237, 2238, 2239, 2240, 2241, 2242, 2243, 2244, 2245, 2246, 2247, 2248, 2249, 2250, 2251, 2252, 2253, 2254, 2255, 2256, 2257, 2258, 2259, 2260, 2261, 2262, 2263, 2264, 2265, 2266, 2267, 2268, 2269, 2270, 2271, 2272, 2273, 2274, 2275, 2276, 2277, 2278, 2279, 2280, 2281, 2282, 2283, 2284, 2285, 2286, 2287, 2288, 2289, 2290, 2291, 2292, 2293, 2294, 2295, 2296, 2297, 2298, 2299, 2300, 2301, 2302, 2303, 2304, 2305, 2306, 2307, 2308, 2309, 2310, 2311, 2312, 2313, 2314, 2315, 2316, 2317, 2318, 2319, 2320, 2321, 2322, 2323, 2324, 2325, 2326, 2327, 2328, 2329, 2330, 2331, 2332, 2333, 2334, 2335, 2336, 2337, 2338, 2339, 2340, 2341, 2342, 2343, 2344, 2345, 2346, 2347, 2348, 2349, 2350, 2351, 2352, 2353, 2354, 2355, 2356, 2357, 2358, 2359, 2360, 2361, 2362, 2363, 2364, 2365, 2366, 2367, 2368, 2369, 2370, 2371, 2372, 2373, 2374, 2375, 2376, 2377, 2378, 2379, 2380, 2381, 2382, 2383, 2384, 2385, 2386, 2387, 2388, 2389, 2390, 2391, 2392, 2393, 2394, 2395, 2396, 2397, 2398, 2399, 2400, 2401, 2402, 2403, 2404, 2405, 2406, 2407, 2408, 2409, 2410, 2411, 2412, 2413, 2414, 2415, 2416, 2417, 2418, 2419, 2420, 2421, 2422, 2423, 2424, 2425, 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3588, 3589, 3590, 3591, 3592, 3593, 3594, 3595, 3596, 3597, 3598, 3599, 3600, 3601, 3602, 3603, 3604, 3605, 3606, 3607, 3608, 3609, 3610, 3611, 3612, 3613, 3614, 3615, 3616, 3617, 3618, 3619, 3620, 3621, 3622, 3623, 3624, 3625, 3626, 3627, 3628, 3629, 3630, 3631, 3632, 3633, 3634, 3635, 3636, 3637, 3638, 3639, 3640, 3641, 3642, 3643, 3644, 3645, 3646, 3647, 3648, 3649, 3650, 3651, 3652, 3653, 3654, 3655, 3656, 3657, 3658, 3659, 3660, 3661, 3662, 3663, 3664, 3665, 3666, 3667, 3668, 3669, 3670, 3671, 3672, 3673, 3674, 3675, 3676, 3677, 3678, 3679, 3680, 3681, 3682, 3683, 3684, 3685, 3686, 3687, 3688, 3689, 3690, 3691, 3692, 3693, 3694, 3695, 3696, 3697, 3698, 3699, 3700, 3701, 3702, 3703, 3704, 3705, 3706, 3707, 3708, 3709, 3710, 3711, 3712, 3713, 3714, 3715, 3716, 3717, 3718, 3719, 3720, 3721, 3722, 3723, 3724, 3725, 3726, 3727, 3728, 3729, 3730, 3731, 3732, 3733, 3734, 3735, 3736, 3737, 3738, 3739, 3740, 3741, 3742, 3743, 3744, 3745, 3746, 3747, 3748, 3749, 3750, 3751, 3752, 3753, 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3920, 3921, 3922, 3

as dividends and may be applied against unpaid balances. This installment arrangement is held out to the investor of moderate means, but from the foregoing regulations, it seems that investment is prohibited to the average person.

Withdrawal from the trust is simple. The shareholder receives his share value less a small charge of one-half of one per cent. These charges are turned over to the Trust rather than the Bank as trustee so that the shareholders eventually receive the benefit derived from the charge collected from those who withdraw.

The Bank makes all the investments as trustee. It charges for its services as trustee one-half of one per cent per annum on the value of the fund. Although closely associated with the Bank, Security National Bond Investment Trust claims that it keeps all assets belonging to Trust separate from those of the Bank. This provision is necessary in order to refute certain objectionable practices which have been made possible through the affiliation of an investment organization with a bank.

With no appeal of appreciation, this trust offers little to the investor except an increase in principal due to the compounding of interest. Under good management it is possible that the dividends would be somewhat higher than those of an average bank because all earnings are distributed to the shareholders except the small charge of the Security National Bank

for its services. The overhead is small as the Trust benefits from the established organization previously created as the Bank.

This investment trust is only one of a number of similar nature that have been developed by local banks to take care of the surplus funds of their respective communities. Many of these, however, have dealt in securities of all kinds rather than specializing in bonds only.

for its services. The overhead is small as the fixed charges
from the established organization previously operating in the

Bank.

This movement is only one of a number of similar
movements that have been developed by local banks in other parts of
the United States of their respective communities. Many of
the movements have been in connection with the United States
Farm Association in some cases.

Common Stock Investment Trusts

Common Stock Investment Table

INCORPORATED INVESTORS

Incorporated Investors was organized in 1925 as a "union of investors". The corporation grew out of a number of trust accounts managed for private individuals who later combined these various funds. After a year's time, the public was given an opportunity to participate.

Capital is now raised through the sale of shares, there being but one kind issued, voting trust certificates. The number of these outstanding has increased from 10,000 to over 671,000 shares. As soon as there is a demand, additional shares are sold. These are "fully participating both as to assets and earnings", but they do not give the investor the right to vote. Instead, a voting trust, made up of five members of the Board of Directors, has control with the intent of insuring continuity of management until 1940.

Capital is invested primarily in common stocks selected from an approved, published list. Emphasis is placed on "large, low-cost producing corporations" whose management has proven its ability. Bonds and call loans may be invested in temporarily at the discretion of the management. The usual policy of the Trust, however, is to restrict its portfolio to about 31 different companies, investing only 5% in any one concern. This is similar to the practice followed by the State Street Trust Corporation but unlike that of the Massachusetts Investors Trust

which has about 232 stocks on its list.

It is the policy of the Trust to keep the management fees at a minimum, a fixed charge of 1/8% being deducted for this service. This fee is based on the principal after adding to it profits derived from stock dividends, rights, or the sale of securities. The organizers, it is claimed, do not absorb the major part of the profits as frequently is the case with trusts of more complex structure.

Substantial reserves are built up, capital gains acquired from the "increased market value of the assets of the trust, stock dividends, stock purchase rights, and profit from the sale of securities" are held as such and not distributed as dividends.

According to the reports of the Trust, the number of shareholders in the last quarter of 1929 showed a decided increase over the preceding three months. The individual owners of shares as of September 30, 1929 was 9,824 in comparison with 12,745 about the middle of December, 1929.

In its publication, "The Incorporated Investor", the statement is made the Trust's stock declined 53% during the recent market break, while twenty-five of the leading American investment trusts declined as a group 66% on an average from their high prices.

In January, 1926 shares sold for 100. The recent

which was about 100 miles on the line.
It is the policy of the "Trust" to keep the membership low
at a minimum, a fixed number of 1,000 members had for 1914
before. This too is based on the principle of keeping the
membership down about 100,000, which, on the whole,
is the maximum. The maximum, it is stated, is not about 100
but 100,000 of the people as frequently it is said with this
in mind we have 100,000.

Substantial resources are being, created by the holding
of the "Trust" with a view of the assets of the trust,
which includes, and which includes, and which includes
the "Trust" and which is not included in
the "Trust".

According to the records of the "Trust", the number of shares
is about 100,000, which is about 100,000 shares
and the proceeds of the "Trust". The "Trust" owns
about 100,000 shares, which is about 100,000 shares
and the proceeds of the "Trust".

In its publication, "The International Trust", the
statement is made that the "Trust" has about 100,000 shares
which is about 100,000 shares, which is about 100,000 shares
and the proceeds of the "Trust".

In January, 1900, the "Trust" had about 100,000 shares.

equivalent low was 145. The increase in capital value is estimated to be from \$100.00 in 1926 to \$180.00 in December, 1929, representing an average increase of about 20% annually according to the figures of the Trust.

As a rule, fund participations such as Incorporated Investors are non-transferable, the only method of disposing of them being to turn them back to the corporation issuing them. Incorporated Investors' shares are, however, transferable; they are also non-assessable. The treasurer is authorized to purchase any shares offered, paying the liquidating value for them less 2%. The market value, accordingly, hovers around the liquidating value, varying with the market value of the securities making up the portfolio.

In August, 1929, the asked price fluctuated around 80. On October 29, 1929, it fell to 60 1/2, while in January, 1930, it fell around 50. An extra dividend of 10¢ a share was paid in December, 1929, and the usual dividend was paid on January 15, 1930.

The intent of the Trust, it is claimed, it is keep the investor well informed at all times, but with the management permitted to make substitutions in the portfolio, the investor cannot follow the holdings very closely. Quarterly financial statements are distributed and a news sheet, "The Incorporated Investor", is published by the Parker Corporation.

INLAND INVESTORS, INC.

Inland Investors, Inc., Cleveland, Ohio, one of the smaller fund-participation trusts was founded in June, 1927, under the general corporation laws of the State of Delaware. It claims, as so many other American trusts, to be organized according to the British plan, yet as to structure, it does not follow the usual British practice, in that it issues but one class of stock. Furthermore, it restricts investments, as do most American trusts, to the stocks of corporations in the United States and Canada, rather than following an international policy as the British trusts do. Neither does it adhere to the usual British practice of giving the managers a fixed salary. Instead, 5% of the annual net profits of the Company is paid to the Board of Directors.

However, it does adopt the British idea of ploughing back earnings. The by-laws provide for a reserve to the extent of one-tenth of the net profits of the preceding half year until a fund is accumulated equal to 20% of the paid-in capital of the corporation. Again, as is the British custom, the by-laws permit of borrowing, in this instance, to an amount "not exceeding in the aggregate 40% of its assets at the time such indebtedness is incurred." Many American trusts do not permit the borrowing of money, particularly those dealing in common stocks only because of the instability of their income. At the present time, however, this Company has no loans.

The investment restrictions permit the funds of the trust to be invested chiefly in common stocks with the provisions that these shall be stocks of strong companies which have been in business at least three years and are on a dividend-paying basis. Diversification is effected in that 10% of capital and surplus is the maximum amount of capital that may be invested in any one corporation, and 25% is the limit for any one particular line of industry. Also, provision is made that the trust shall not endeavor to gain control over any other business in that the trust is prohibited to own more than 12 1/2% of the stock of any one corporation. As of December 31, 1928, this trust had included in its investment list the names of a number of companies which are not of the gilt-edge variety and which appear in practically no other lists, as for instance, The Sherwin-Williams Co., The Ohio Brass Company, The Kelly Island Lime and Transport Co., The Cleveland-Cliffs Iron Company.

Dividends payable quarterly were declared during 1928 at the annual rate of \$2.20 per share. Earnings per share for the six months ending June 29, 1929, amounted to 8.18% on invested capital. This was exclusive of unrealized appreciation, the trust following the conservative and better practice of figuring its marketable securities at cost.

At the close of business December 31, 1927, and also December 31, 1928, very little cash on hand was shown, \$132.98

and \$98.93 respectively, most of the funds being in call loans. As of June 29, 1929, cash had been increased to \$82,158.95 and call loans reduced about one-half. The total assets increased from \$2,059,039.55 to \$5,762,276.29 in a period of one and one-half years. The profits earned in during the same period increased from \$52,769.99 to \$484,274.44 which appears to be an excellent record. On the other hand, the income from dividends and interest is lumped with the profit on the sale of securities, making it difficult to determine the amount considered as capital gain.

According to a report issued on November 14, 1929, the net earnings for the first ten months of the year were \$8.14 per share, or 16%. Paper losses on its portfolio of securities costing approximately \$6,000,000.00 were \$76,710. The Trust invests in stocks, for the most part, which do not cost more than ten times their annual earnings. The yield, however, on most of these investments is small, averaging around 5%.

The policies of the trust seem to be conservative. Since the market recession the President of the Company has informed stockholders that the stocks did not share in the extreme market advances that preceded the break nor in the unusual recessions that followed.

Although Inland Investors, Inc. publishes quarterly and annual reports to stockholders, very little advertising is attempted.

IRVING INVESTORS MANAGEMENT COMPANY, INC.

Irving Investors Management Company, Incorporated, the recent successor to Investment Managers Company which was organized in 1924, is a corporation formed to manage two Investment Trust Funds, A and B, each serving a distinct purpose. To quote from literature of the Trust:

"One Fund, Investment Trust Fund A, provides for quarterly distributions at the rate of 5% per annum on the amount subscribed by each investor, plus an annual distribution of 12 1/2% of his proportionate part of the net income earned in excess of such 5%, the balance of income being reinvested, thus tending to increase the value of his participation.

"The other Fund, Investment Trust Fund B, is accumulative--that is, all income realized by the Fund is compounded through reinvestment and is thus reflected in an increasing value for participations.

"Fund A, therefore, provides current distributions and also a prospect of increasing principal, while Fund B offers an opportunity to accumulate capital through reinvestment of all income." *

Like many of the trusts of the limited management type created under a trust indenture and issuing but a single class of participation, certain definite investment restrictions are stipulated. The Company claims that the indenture includes "carefully drawn provisions designed to protect the investors interests." These prevent borrowing in any form for the accounts of the Fund. They stress wide diversification in that limitations are imposed as to the proportions of the Fund that may be invested in any one industry or in any one

*Irving Investors Management Company, pamphlet, page 2.

Corporation. They furthermore require that all participants, including directors or any other persons connected with the Corporation, subscribe for shares on exactly the same terms.

As of December 31, 1928, Investment Trust Fund A possessed underlying securities comprising 305,600 shares of nine railroads (3,800 shares of which was preferred stock, the remainder being common) 19,012 common shares of five different light, heat and power companies; 6,800 shares of two mining companies; 34,100 shares of the stocks of ten other companies, 3,400 shares of these being preferred. The stock value of these securities owned totalled, at that date, \$7,518,495.68, while the market value was \$8,898,725.

Trust Fund B, the smaller Fund appealing to those who are investing to build for the future, allows dividends to accumulate. As of September 30, 1929, the portfolio consisted of 4,600 shares of five railroads (2,100 cumulated preferred and the remainder common); 3,900 shares of four food companies; 5,600 shares of three mining companies; 1,407 shares of three light, heat and power companies; 2,000 shares of four chemical companies; 1,500 shares of two oil companies; 6,753 shares of seven other corporations. The market value of these totalled \$2,199,715. in comparison with a book value of \$2,013,816.67, showing unrealized profit on securities owned as \$185,898.33. From September 30, 1928 to the same date a year later, there

had been considerable shifting of securities to attain greater diversification of risk as well as safety of principal. As of 1928, no mining oil, or chemical concerns were included.

It is a practice of the Trust to keep a large part of its funds in call loans. In fact, in the case of Trust Fund A, at the close of business in December, 1928, call loans and cash exceeded the value at cost of securities owned by almost one million dollars. Trust Fund B, at the end of September, 1929, was in practically the same position regarding call loans and cash.

Evidently the wisdom of such a policy manifested itself at the time of the spectacular market crash of the fall of 1929. In a letter to the writer, November 4, 1929, Mr. Douglas T. Newbold, Secretary, wrote:

"The primary object in the management of these two Trust Funds is to protect established values rather than to seek speculative gains. To that end, a part of each Fund is maintained in fixed obligations, (i.e. cash, call loans, etc.) and a part in equities, the proportions of each of these classifications being altered to conform to the management's appraisal of current conditions. You will also note from out material that the Indentures governing the respective Funds permit of complete freedom to invest in bonds."

Like most fund participations, certificates are issued constantly to meet the demand for them. They may be redeemed, less stipulated charges, only by presenting them at the office of the Corporation or by assigning them to a bank or other agent to facilitate the collection of the proceeds. Although

non-transferable, Series A and B are interchangeable.

Instead of being issued at no par value or for \$100., as are most fund participations, the certificates of the Irving Investors Management Company, Inc., must be subscribed for in multiples of \$1,000., in the case of Trust Fund A, and for multiples of \$100., in the case of Trust Fund B. The minimum face value of Trust Fund A certificates is \$10,000, representing 10 shares at \$1,000. a share, while that of Trust Fund B is \$1,000., representing 10 shares at \$100. a share. As so large an initial outlay is required, this Trust naturally makes no appeal to the small investor. It rather offers a medium of investment for institutions or corporations and investors of means.

The Corporation follows a policy of wide publicity. It issues annually and quarterly statements and, in addition, individual statements of income to each holder of a certificate. The figures included in the latter statement are of assistance to the investor in preparing his Federal Income Tax returns.

The Trust aims to give the investor the protection of the fixed type of unit trust combined with the benefits of effective, continuous, impartial, supervision and management of his investment. It states that compensation of the management is from three sources only as follows:

"(a) 1% of the face value of Certificates when issued, to be paid by the subscriber in addition to the amount of his subscription,

"(b) 1/4 of 1% quarterly on the actual value (determined as provided in the Investment Trust Indenture) of the Investment Fund on the last day of each quarter,

"(c) 1% on the actual value (determined as provided in the Investment Trust Indenture) of Certificates as of the date as of which they may be redeemed, unless redemption be at the option of the Company." *

As the Trust is sponsored by the Irving Trust Company, New York, which has national and international connections, able and responsible backing offers added attraction and protection. The President of Irving Investors Management Company, Inc., is Edgar Lawrence, the well-known economist and the author of "Common Stocks as Long Term Investments".

*Irving Investors Management Company, Inc., pamphlet entitled "Investment Trust Certificates, Series A", page 3

(1) If the two values of the function $f(x)$ at the points x_1 and x_2 are equal, then the function is constant on the interval $[x_1, x_2]$.

(2) If the two values of the function $f(x)$ at the points x_1 and x_2 are not equal, then the function is not constant on the interval $[x_1, x_2]$.

(3) If the two values of the function $f(x)$ at the points x_1 and x_2 are equal, then the function is constant on the interval $[x_1, x_2]$.

As the function $f(x)$ is constant on the interval $[x_1, x_2]$, it follows that the function $f(x)$ is constant on the interval $[x_1, x_2]$.

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MASSACHUSETTS INVESTORS TRUST

The Massachusetts Investors Trust, a common law trust, was organized in March, 1924 as a "True Mutual Investment Association." In the annual report for the year ending December 31, 1928, the following statements appear.

"Unlike some investment trusts, there are no bondholders or preferred stockholders having prior rights in case of liquidation and prior calls on earnings, nor are there any management shares, bonus stock, options on stock, etc., as in the case of some investment trusts. As the value of our assets increases, the entire benefit will inure to the shareholders."

In September, 1929, the Trust's portfolio consisted of over one hundred forty common stocks, including those of bank and insurance companies, railroads and equipments, public utilities, industrial companies and miscellaneous. After purchase, stocks are deposited with the State Street Trust Company as custodian and certificates which represent a part interest in each of the securities held are issued to the investors. Originally shares were issued with a par value of \$50.00, but in 1928, two shares of no par stock were given in exchange for one share of the old stock.

The management of the Trust consists of four trustees. As they possess broad powers, they are expected to be both conservative and far-sighted in their policies and not only to watch the companies in which funds are invested, but to be prepared to make changes and substitutions at the proper time.

They are, however, limited in the investment and reinvestment of capital to an approved list of common stocks, although provision is made for purchasing bonds, mortgages, and other negotiable securities, both foreign and domestic, if necessary. Five per cent of the funds of the Trust is the greatest amount that can be invested in any one company. A further restriction prohibits the trustees from using the funds of the Trust in any undertaking involving "promotion, business management, or underwriting". They are given no authority to borrow money or contract debts. However, neither shareholders or trustees are personally liable and legal action must be brought against the Trust estate only.

Trustees are paid from the trust estate or the current income thereof "at the rates generally current for such services in Boston, Massachusetts, based upon the value and nature of the services rendered by such Trustees."* This is an indefinite arrangement depending upon the honesty of the management to fix a fair rate of compensation.

The Trust claims that it avoids unsound practices; for instance, it does not create fictitious values in the selling price of its shares but bases the price on the asset value of all the securities in its portfolio. It distinguishes between profits derived from the sale of its holdings and regular investment income secured from cash dividends. It adheres to

*Agreement and Declaration of Trust, Article IV, Section I, page 11

They are, however, limited in the number and distribution of capital to an approved list of public works, although the vision is made for unimproved lands, waterways, and other public utility activities, both private and public, if necessary, five per cent of the value of the first in the project, and that can be converted in any one currency. A further restriction prohibits the transfer from public to private hands in any undertaking and from "promoters, business management, or ownership". They are given no authority to borrow money or contract debts. However, neither shareholders or trustees are personally liable and legal action must be brought against the trust estate only.

Trusts are held from the trust estate or are exempt from some special tax and estate tax, and are exempt from gift tax in Boston, Massachusetts, based upon the value and nature of the property transferred by such trusts. This is an important feature of the legislation, especially when the transfer of the property to the trust is at a low value.

The trust estate is subject to the usual provisions for income, and does not receive a special return in the United States of the United States and is subject to the usual value of all the property in the portfolio. It is subject to the usual provisions for the estate and the value of the portfolio and is subject to the usual provisions for the estate and the value of the portfolio.

Approved and Restricted Trust, Article IV, Section 2, Page 21

the policy of accumulating reserves so as to be able to pay the regular quarterly dividends in poor years as well as in good. Dividends are based on the gross earnings of the Trust fund, disregarding, however, capital gains which include stock dividends and "split-ups". The management, if it desires, may declare special dividends from surplus as was done in 1928.

The Trust has paid dividends of about \$3.00 per share.

On no par stock during 1929 these were as follows:

January-----	50¢ cash and one share stock for each 100 shares
April-----	45¢ cash
July-----	52¢ cash and one share stock for each 100 shares
October-----	45¢ cash

On January 8, 1930, the same dividend as for July, 1929 was declared. This was of assistance in retaining public confidence.

As of September 30, 1929, the Trust had assets valued at \$17,628,634.41 with cash paid in amounting to \$11,488,371.02. Included in these assets was \$2,146,502.66 in cash and call loans. In a letter to shareholders following the stock market break, the following statement was made: "Massachusetts Investors Trust is built to endure. A reading of the list of powerful companies whose stocks are owned will convince you that M.I.T shares, whatever 'The Market' does, are going to increase in value and earning power from year to year."

The low of the shares of the Trust on September 30, 1929

the policy of non-liquidation was not as to be able to pay
 the regular quarterly dividends in four years as well as in
 1930. Dividends are based on the gross earnings of the firm
 and, consequently, however, regular gains which include
 dividends and "extra-dividends". The management, it is believed, has
 declared special dividends from 1925 to 1929.
 The firm has paid dividends of about \$2.00 per share.

On an 8% stock during 1929 there were as follows:
 January-----\$500 cash and one share, which was sold
 100 shares
 April-----\$500 cash
 July-----\$500 cash and one share which was sold
 100 shares
 October-----\$500 cash

On January 8, 1930, the stock dividend was 100 shares, 1930
 was declared. This was of assistance in retaining position
 confidence.

As of September 30, 1930, the firm had assets valued at
 \$17,000, and 41,000 shares were in circulation at \$1.15, \$47,000.
 Included in these assets was \$2,100,000.46 in cash and bank
 items. In a letter to shareholders following the stock dividend
 plan, the following statement was made: "The management
 believes that a policy of cash dividends is a factor of the firm
 of financial strength and these assets are being used to
 that R.I.V. shares, whether the firm's stock, the value of
 increases in value and market price from year to year."

The law of the State of New York, Chapter 10, 1930

was 52 3/4. During the erratic market which followed, they receded about eight points. In January, 1930, they were quoted around 43. Since the Trust is not speculative in character, there is every reason to believe that these shares will show a normal advance in the future.

The Trust is now making an appeal to all classes of investors. The number of shareholders has increased from a very few with paid in capital of \$50,000. in July, 1924 to over 3200 at the present time. The M. I. T. Savings Club is an arrangement under which a group of officers and employees in a business may band their weekly or monthly savings together for investment in the shares of the Trust. The four "Reinvestment Associates" groups represent a plan whereby quarterly dividends are reinvested in additional Trust shares. The public is also offered Travel, Retirement, and Children's Educational Funds.

Considerable advertising of a commendable type is used by the Trust. Once a week a broadcast has been made from WEEI, Boston. The expenses for this are paid by Slayton-Learoyd, Inc., distributors of the M. I. T. shares.

... 22 1/2. During the entire period which follows, the
... about the same. In January, 1934, the ...
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... is every reason to believe that these ... will ...
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STATE STREET INVESTMENT CORPORATION

The State Street Investment Corporation, formed in 1924 under the laws of Massachusetts, was for two years conducted as a private corporation "to test out various individual ideas, and at the same time give the management an opportunity to study the problems and difficulties encountered in the actual operation of such a company."*

For the past two years or so, however, the Corporation has been selling shares to the public and the number of shareholders has increased from 3 to 280, while the number of shares outstanding has grown from 4,000 in August, 1924 to 63,186 as of December 31, 1928. The paid in capital, \$100,000 originally subscribed by the officers of the Trust, at the close of 1928 stood at \$6,619,820, while the net worth of the business was almost twice that figure.

The State Street Investment Corporation favors highly concentrated control in the management. It has issued two classes of common stock, Class A, the voting stock which is closely held by the officers, and Class B, held by the public. This is not in keeping with the theory advocated by many trusts which feature the voting privilege for all shareholders. This Trust believes that skilled and honest management--for which the investor pays a small fee--is better able to handle the situation than a number of inexperienced stockholders with a great variety

*Fifth Annual Report, for the year ending December 31, 1928

UNITED STATES DEPARTMENT OF AGRICULTURE

The State Bureau of Plant Industry, under the laws of Massachusetts, and the various departments of the State, are authorized to take the various measures necessary to protect the State from the introduction of any pest which may be injurious to the State, and to take the various measures necessary to protect the State from the introduction of any pest which may be injurious to the State.

For the purpose of the State, the State Bureau of Plant Industry, under the laws of Massachusetts, and the various departments of the State, are authorized to take the various measures necessary to protect the State from the introduction of any pest which may be injurious to the State, and to take the various measures necessary to protect the State from the introduction of any pest which may be injurious to the State.

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For the purpose of the State, the State Bureau of Plant Industry, under the laws of Massachusetts, and the various departments of the State, are authorized to take the various measures necessary to protect the State from the introduction of any pest which may be injurious to the State, and to take the various measures necessary to protect the State from the introduction of any pest which may be injurious to the State.

of ideas.

In direct contrast with most trusts, the State Street Investment Corporation holds that too broad diversification of the portfolio should be avoided, stating that it is "a substitution of the law of averages for manager ability." Instead, it stresses what it terms "reasonable" and "sensible diversification. It disapproves of profits for insiders derived by means of giving the organizers stock or charging them less than the shareholders. It objects to a trust basing management charges upon total funds over which the managers exercise control, instead of basing them on actual net worth. Furthermore, it considers it an unfair practice for a trust to charge commissions on the sale of its own securities.

The Trust limits its investments for the most part to the common stocks of about twenty-six companies. In making this selection it uses as a guide the following considerations: (1) "The study of general conditions with a view of determining the time and type of security to be purchased; (2) A study of the various industries with particular stress on those which appear to offer the greatest possibilities of profitable expansion over a period of years; (3) An extensive study of the most promising individual companies."* In order to secure direct contact with the management of the concerns represented in the underlying securities of the Trust, the officers make personal visits. It is felt that this is an important supplement to

*Fifth Annual report, page 12

statistical studies and analyses.

According to a chart prepared by the Trust which compares its liquidating value with that of the Dow-Jones Company's average, "the average annual appreciation of the liquidating value of the State Street Investment Corporation shares has amounted to approximately 59% as against 28% for the Dow-Jones average."* After the market break the decline was 9% as compared with 17.2% for the Dow-Jones average.

The net worth of shares outstanding increased from \$70.00 at the time of organization in August, 1924 to \$193.09 in December, 1929. The liquidating value at the time of organization was \$25.00 per share. On January 2, 1929 it was \$95.75 as against \$87.14 for January 2, 1930, a decline, as above stated, of approximately 9%. Shares were offered to the public in 1924 at \$25.00 per share. The recent quotations in January, 1930 were bid, 98 as against 126 in December and 133 in October, 1929 before the break.

The Trust feels that a "selected list of equities forms the best medium of investment from the point of view of security of principal, income return and capital appreciation", and states that an average of 10% can be made by following such a policy. For the year 1928, net gain from the sale of securities less interest paid, amounted to \$1,672,993.03, showing that a considerable part of earnings was derived from the sale

*Fifth Annual Report, page 5

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of stocks which had appreciated. Dividends, Interest, and other similar receipts amounted to less than 10% of this amount.

During December, 1929, the Corporation borrowed approximately \$5,000,000 to be used with the cash on hand in purchasing common stocks. These were bought at what later proved to be higher prices than the subsequent lows. Accordingly, when prices recovered somewhat, a considerable portion of investments were liquidated so that today (January, 1930) the Trust has net cash equal to about 5% of its total funds.

Owing to the market slump, the Trust will probably not be able to make as good a record in the immediate future, at least for some time to come, as it has in the past.

In contrast with many of the trusts, no selling campaign has been conducted by the State Street Investment Corporation, the intent being to let the good results attract customers.

STERLING SECURITIES CORPORATION

Sterling Securities Corporation, organized in April, 1928, is an illustration of the general management type of investment trust dealing in common stocks although by its charter, with certain restrictions, securities in any field may be purchased. The Insuranshares Corporation of New York is the distributing agency and renders management services. This Trust was the first investment company to be listed on the New York Stock Exchange.

As of September 30, 1929, the capitalization of the company consisted of 300,000 shares of \$3.00 dividend, cumulative convertible, first preferred stock, par value \$50.00; 500,000 shares of \$20.00 par-value preferred stock; 600,000 shares of Class "A" common stock with no par value; and 297,297 shares of Class "B" common stock with no par value. The managers have broad powers with certain restrictions. They can use their discretion about investing and reinvesting funds. Investment limitations, however, are as follows:

"(1) Not more than five per cent of the assets of the Corporation shall be invested in any one stock or other security, or in the securities of any one corporation, syndicate, association, trust, firm or individual, including any subsidiary corporation, syndicate, association, trust, individual, firm or other organization issuing securities.

"(2) No part of the assets of the corporation shall be invested in securities involving unlimited liability on the part of the holders thereof.

ARTICLE IV - GENERAL PROVISIONS

Section 1. This Corporation shall be organized in and for the State of New York, and its principal office shall be located in the City of New York. It shall have the power to acquire, hold, lease, convey, mortgage, and otherwise dispose of real and personal property, to incur and pay debts, to sue and be sued, to execute its corporate powers, and to do all such other acts and things as may be necessary or proper for the accomplishment of its corporate purposes.

Section 2. The authorized capital stock of this Corporation shall be \$1,000,000.00, divided into 100,000 shares of \$10.00 each. The shares shall be designated as "Common Stock" and shall be payable in cash. The Corporation shall have the power to issue such stock in whole or in part, and to make such adjustments in the number and value of the shares as may be necessary to conform to the provisions of the laws of the State of New York.

Section 3. The Corporation shall have the power to borrow money, to issue bonds, debentures, or other securities, and to incur such other liabilities as may be necessary for the operation of its business. The Corporation shall also have the power to enter into contracts, to lease property, and to do all such other acts and things as may be necessary for the accomplishment of its corporate purposes.

"(3) No part of the assets of the Corporation shall be invested in securities for the purpose of acquiring, controlling or carrying on the whole or any part of the business of any corporation, syndicate, association, trust, individual, firm or other organization, issuing such securities." *

The compensation of the management consists primarily of its ownership of the Class "B" Stock which was purchased by the Founders, Directors, and the Investment Committee, thereby furnishing funds sufficient to meet all organization expenses. The cost of statistical and research service and the maintenance of office, according to the prospectus of the Trust, is less than 1/2 of 1%. The present Board of Directors of this Corporation is comprised of a number of men who are well known in the industrial and financial centers of the United States. They represent various types of business and have valuable contacts.

The total assets of the Corporation as of September 30, 1929, were \$36,179,956.34 in contrast with the original capital and surplus of \$16,000,000. At this time, a large portion of the assets, practically one-half, was in cash and call loans with the idea that the Trust might take advantage of bargains in securities when available.

The total investments at cost were valued at \$790,303.76 as against a market value of \$1,768,822.50. A considerable part of income has been derived from the sale of securities. Before the market break, the common stock was selling to the public at around 30 to 35, approximately one and one-half times

*Insuranshares Corporation and its Affiliated Investment Trust Activities, page 30

"(2) The fact that the majority of the corporation is owned by individuals is immaterial for the purpose of determining whether or not the corporation is a corporation for the purpose of the Internal Revenue Code, and the fact that the corporation is owned by individuals is immaterial for the purpose of determining whether or not the corporation is a corporation for the purpose of the Internal Revenue Code."

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its liquidating value of August 13. Based either on earnings or on asset value, this was an excessive price. For January, its high and low were 13 1/2 and 10 respectively. The cumulative preferred, paying dividends of \$3.00 per share, for the same period, was 39 3/4 high, 36 3/8 low. The preference stock, paying \$1.20, hovered around 12. At the option of Sterling Securities Corporation, the latter may be redeemed at \$22.00 per share. Upon dissolution of the company it is entitled to par, \$20.00.

The preferred issues have more attractive possibilities, but even at present prices, the common stock appears to be particularly speculative, its future being grounded upon a subsequent period of favorable market conditions. The fact that the Trust is listed on the Exchange will prove in its favor, and the investor will be able to secure adequate information regarding its activities and progress.

The investigation was made at about 10.30. When the
on an early stage, there was an increase in the
the high and low water is 1.5 and is the average. The
also predicted, the difference of 0.50 per cent, for the
more period, was 0.54 per cent, for the
period 0.150, however, it was 0.15 per cent at the
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per cent. From the comparison of the results it is evident
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The predicted values were very different from the
but were at present correct, for when a more exact
theoretical observation, the latter was 0.15 per cent at the
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that the latter is 1.5 per cent at the latter, it was 1.5
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also showed that the latter was 1.5 per cent at the latter.

DISTRIBUTION ON STOCK UNDERLYING EACH UNIT
OF CORPORATE TRUST SHARES FOR SIX MONTHS ENDING
(December 31, 1929)

	<u>Cash</u>	<u>Extra Cash</u>	<u>Stock Div.</u>	<u>Rights</u>	<u>Split- ups</u>	<u>Total</u>
American R. & S.	3.00				556.19	559.19
American Tobacco	16.00	8.00		42.86		66.86
dupont	8.00	2.00				10.00
Eastman	10.00	6.00		21.27		37.27
International						
Harvestor	5.00					5.00
Ingersoll Rand	8.00	8.00				16.00
National Biscuit	12.00	6.00				18.00
Otis Elevator	12.00	8.00				20.00
United Fruit	8.00					8.00
U. S. Steel	14.00	4.00				18.00
Woolworth	4.80				556.11	560.91
American Tel.&Tel.	18.00					18.00
Consolidated Gas	7.00			37.05		44.05
General Electric	8.00	4.00				12.00
Western Union	16.00					16.00
Westinghouse	8.00					8.00
Atchison	20.00					20.00
Illinois Central	14.00					14.00
Louisville & Nash.	14.00					14.00
New York Central	16.00			22.68		38.68
Penn	8.00			12.46		20.46
So. Pacific	12.00					12.00
Union Pacific	20.00					20.00
Standard Oil Cal.	5.00		4.85			9.85
" " Ind.	5.00	1.00				6.00
" " N.J.	2.00	2.00				4.00
" " N.Y.	3.20					3.20
Texas Corp.	6.00					6.00
Totals	283.00	49.00	4.85	136.32	1,112.30	1,585.47
Total Earnings.....						1,585.47
Interest on Reserve Fund.....						17.65
Total Earnings on Corporate Trust Shares Unit.....						1,603.12
Earnings per Corporate Trust Shares Unit.....						.8016

AMERICAN BASIC-BUSINESS SHARES

The shares issued by the American Basic-Business Corporation represent a fixed trust of the unit type with a rigid initial list of underlying common stocks. The original series, Fixed Trust Shares "A" and Fixed Trust Shares "B", are practically identical in method of operation. These have recently been supplemented with Basic Industry Shares--organized in 1928 and substantially the same as the first two series--and with Corporate Trust Shares, organized in 1929.

In determining upon its initial list of securities, American Basic-Business Shares Corporation studied and analyzed over eleven hundred corporations before selecting the thirty companies represented in the original unit. For 1928, according to the Corporation, the companies selected had remaining for common stock 81¢ out of each dollar of profit. The unit, originally totalling 132 shares, consisted of 35 shares of 8 railroads; 27 shares of oils, mostly of the Standard Oil group; 24 shares of public utilities and quasi-utilities; and 46 shares of 12 industrials.

The intent was to select "chosen leaders in each field", mostly of national aspect, which had a high rating, Moody Aa or A. Diversification was met in that the thirty different organizations represented had more or less direct control over approximately eight hundred other corporations, participating

either directly or indirectly in the manufacture or distribution of some one thousand different products. Besides making the selection with the idea of diversification in mind the stocks were carefully balanced. As of June 30, 1929, a dollar invested in Basic Industry Shares was divided as follows (June 30, 1929):

"22¢	is invested in railroads.
7¢	" " " oil producing and distributing companies.
23¢	" " " utilities and quasi-utilities.
48¢	" " " basic industrials."*

When Series A was issued in August, 1927, there was deposited with the Trustee the 132 shares of common stock constituting a unit; \$1,000. in cash as a reserve fund to equalize dividends; and \$255.83 in cash representing cash dividends which had been accrued since the purchase of the stock. It was provided by the Trust Agreement that a reserve fund equal to \$1,000. should be established for each unit, this fund to be built up to a maximum of \$1,500. but only after the payment of the minimum semi-annual dividend. The minimum dividend of \$1.00 per share is payable 50¢ each half year. If, however, earnings are insufficient to take care of these dividends, the reserve fund is drawn upon. Dividends in excess of \$1.00 per share are distributed only when the reserve fund is more than \$1.50 per share. The interest earned on the basic \$1.00 per Fixed Trust Share required to be maintained in the reserve fund

*A Partnership in America's Basic Industries, published by American Basic-Business Shares Corporation, page 6.

is used to maintain the Trust. Any excess earnings above this are considered as distributable earnings and credited to the holder of the shares.

In issuing Series B a maximum of \$1.00 per share was set for the reserve fund, instead of \$1.50, thereby giving the shareholder "extras" as earned. Requirements regarding dividends are the same as for Series A.

For the 2500 Basic Industry Shares, issued in October, 1928, a reserve fund of \$1,250. was established to equalize dividends. As each Basic Industry share represents only 1/2500th interest in the deposited unit, a minimum dividend of 50¢ per share was set, payable 25¢ per share semi-annually. In the case of this Series, no interest received on the reserve fund is distributed.

At the close of 1929, the reserve fund on the original series reached its maximum of \$1.50 per share. A small extra distribution was added to each dividend coupon, the latter being used as with corporation bonds to represent dividend payments. In the case of Fixed Trust Shares B and Basic Industry Shares, it was necessary to withdraw four cents per share from the reserve fund to meet the semi-annual dividend payment. American Basic Business Shares Corporation plans to create no more additional units of the first two series and plans have been arranged to transfer holdings to Basic Industry Shares. A trading market, however, will be maintained for the outstanding shares. The

reason for substituting Basic Industry Shares is that in the case of the first two series the reserve fund is withheld either in whole or in part from the investor. This has proven to be a hinderance in selling shares. With Basic Industry Shares, all of interest is credited to the shareholders. Owing to splitups, the underlying shares have increased from 132 in October, 1928, to 166 in December, 1929. Three additional splitups expected to become effective early in 1930 will further increase this unit to a total of 191 shares.

Another series, differing in several essentials from any of the others is Corporate Trust Shares. These represent participation in practically the same underlying securities, 28 common stocks in this instance. These shares, it is stated, are an adaptation of a popular French financial practice. Instead of retaining all shares of stock received in splitups, some of these are sold and the net proceeds are turned over to the shareholders. This is termed "liquidating dividends" and represents a partial return of the investor's principal, or more strictly speaking, a liquidation of principal appreciation owing to the fact that splitups usually are made only when the stock has risen considerably in price.

In 1929, Corporate Trust Shares paid a dividend of \$1,965. of which 70¢ was the regular coupon distribution and \$1.26, an extra dividend. This represented approximately 19% of the par

value. Furthermore, holders were given the right to reinvest part of their coupon income in the Corporate Trust shares at 5% below the current offering price.

Very elaborate data has been prepared over a sixteen-year period to demonstrate the average market value of the underlying stocks, assuming the existence of the Trust over this length of time. The method of pricing share is also demonstrated, June 6, 1929 being used for illustrative purposes. According to the figures prepared, charges are very reasonable, 25¢ being assessed each share for issue and deposit and 5% for distribution and profit on sales price.

In a letter to the writer of January 11, 1930, Mr. Lawrence W. Schmidt of the American Basic-Business Shares Corporation stated that while during the recent market break stock decline, according to the Dow Jones average for 1929, published in the Wall Street Journal, was for industrials, 48%; rails, 33%; 20 utilities, 55%, Corporate Trust Shares, he stated, showed a decline of but 33%. "This" stated the writer, "is one of the reasons we believe that 'The Investment Trust has found its place.'" Commenting further, Mr. Schmidt stated: "We believe the Fixed Trust of the Unit Type such as ours has definitely found its place in the country's financial structure and are considering no change in the policy in the near future."

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DIVERSIFIED TRUSTEE SHARES

(A comparison with 62 listed general management trusts)

	<u>1929 High</u>	<u>Low to Nov. 14, 1929</u>	<u>Decline From Year's High</u>
Adams Express	68 3/8	18	50 3/8
Aeronautical Industries	31 1/8	7	24 1/8
Air Investors	20 1/8	3	17 1/8
Alleghany Corporation	56 1/2	17	39 1/2
American, British & Continental	22 5/8	5 1/8	17 1/2
American Equities	33 1/2	15	18 1/2
American Founders	122 7/8	66	56 7/8
American International	96 3/4	29 1/2	67 1/4
American Investors B	42 7/8	6 1/8	36 3/4
American Superpower	71 1/4	15	56 1/4
Aviation Securities	49 3/4	10 1/8	39 5/8
Blue Ridge	29 5/8	3 1/8	26 1/2
Burco, Inc.	17 3/8	7 1/2	9 7/8
Chain Store Stocks	42 1/2	9	33 1/2
Chicago Corp.	73	12 1/2	60 1/2
Continental Shares	78	33	45
Electric Investors	302 7/8	75	227 7/8
Electric Shareholding	66	3 1/8	62 7/8
Financial Investing	30	4 7/8	25 1/8
Fourth National Investors	60 7/8	20	40 7/8
General American Investors	30 1/4	8 7/8	21 3/8
Goldman Sachs Trading	121 1/4	32	89 1/4
Graymur Corp.	68 3/8	23	45 3/8
Guardian Investors	18 1/2	4	14 1/2
Haygart Corp.	82 3/8	27 7/8	54 1/2
Insull Utilities Inv.	160	26	134
Insuranshares of Del.	24 7/8	12	12 7/8
Interstate Equities	25 1/2	12 3/8	13 1/8
Investors Equity	72 1/2	12 1/2	60
Lehman Corporation	136	63	73
Mayflower Associates	101 3/8	47	54 3/8
Metal & Mining, Inc.	23 7/8	5	18 7/8
National Aviation	88	6 1/8	81 7/8
National Investors	64 3/4	10 3/8	54 3/8
Niagara Shares Corp.	74 1/4	12	62 1/4
North American Aviation	19 1/2	5	14 1/2
Oilstocks, Ltd. A	19 1/4	8 1/8	11 1/8
Pennroad Corporation	30	15 1/2	14 1/2

DIVERSIFIED TRUSTEE SHARES

Emphasizing the importance of common stocks for permanent or long term holding, Diversified Trustee Shares issued by the American Trustee Share Corporation was a pioneer in the fixed investment trust field. Four issues of shares have been made, namely, Industrial Trust Shares (no longer offered), Diversified Trustee Shares (Original Series), and Diversified Trustee Shares, Series B and C.

Diversified Trustee Shares, the original series, is issued in denominations of 5, 10, 25, 50, 100, 500, 1,000, and 5,000 shares. Each share represents one-thousandth interest in a unit consisting of the common stock of six railroads, six public utilities, seven industrials, and five Standard Oil Companies. The original unit of 141 shares, after split up or exchange of stocks, increased to 214-5 shares by 1929.

Comprising securities from thirty different companies, Series B is similar in structure to the Original Series except that the underlying common stocks are not identical. The original unit has grown in about two years from 128 to 154 shares.

Series C, issued in September, 1929, represents one four-thousandth interest in a unit of 250 shares of common stock of fifty companies. The underlying securities are, for the most part, a combination of those represented in the Original Series and in Series B. This Series may be issued

THE HISTORY OF THE UNITED STATES

The history of the United States is a story of growth and change. It begins with the first settlers, who came to the Americas in search of new lands and opportunities. Over time, these small colonies grew into a powerful nation, shaped by the struggles and triumphs of its people. The American Revolution was a pivotal moment, as the colonies fought for independence from British rule. This led to the creation of a new government, based on the principles of liberty and justice for all. The United States has since played a significant role in world affairs, standing for democracy and freedom. Its history is a testament to the power of the human spirit and the ability of a nation to overcome adversity.

without limit. Investments are diversified as follows: rails, 22%; public utilities, 24%; industrials, 46%; oils and mines, 8%.

In all three Series, the common stock represented is rated Aa or A by Moody. Over 95% of the stocks are listed on the New York Stock Exchange while the remainder are quoted on the Curb. Substitution is prohibited, although in order to take care of exchanges due to merger, consolidation, reorganization, sale, or similar transactions made by the corporations represented, the Trustee is authorized to exchange deposited stock for new securities when necessary.

Following the practice of most fixed trusts, management is reduced to a minimum. The advantages of its absence are claimed in that expense is lessened and that shares may therefor be sold on a much more economical basis.

In the Original Series and Series B, dividends are held to include all cash income received by the Trustee from the underlying stocks. Proceeds from the sale of stock dividends, subscription rights, securities, and other property is all distributed as dividends. With Series C, however, stock dividends and shares received in split ups must be retained and added to the unit with the exception of fractional shares or extra shares in addition to multiples of five which cannot be conveniently included. The latter are sold and the income is added to the

dividends. The advantage to be gained by this procedure is set forth in the prospectus of the Trust as follows: *

"The results of such an investment as is afforded in Diversified Trustee Shares, Series C, appear from an eight-year analysis of the market value and income of a Unit, based on the assumption that shares received in split-ups and stock dividends had been retained to the extent provided in the Agreement under which these Shares are issued. Such a Unit would have had a market value of \$34,276 on December 31, 1921, as against \$218,356 on December 31, 1928. Income on the Unit, assuming that shares or fractions remaining over after the division by five of the number of shares received with respect to a Unit, together with rights, had been sold and the proceeds included in dividends, would have totalled \$37,035, or an average of 13.51% annually on the original investment. Such income, based on the yield in each year determined with respect to the market value as of the end of the same year, would have averaged 7.97%.

"The importance of retaining shares received in split-ups and stock dividends, as provided in Diversified Trustee Shares, Series C, is indicated by the fact that had all such shares been sold and the proceeds included in dividends, the market value of a Unit as of December 31, 1928, would have been only \$42,892. Income over the eight-year period would have totalled \$51,569. As against an increase of \$14,534 in total income, the investor would have sacrificed a gain of \$175,464 in the value of his investment."

This idea is the opposite of the plan now being employed by the American-Basic Shares Corporation and the Colonial Investors Shares. Both of these Trusts are planning to put less into reserve in order to distribute more earnings to shareholders. It is questionable, however, whether this is a wise policy.

The December issue of "The Diversified Shareholder", distributed monthly by the brokers, Throckmorton & Co., contains

*This discussion assumes that shares had been in existence since 1921.

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an article to the effect that while the average decline for the trusts of the general management type was 69%, Trustee Shares, Series C, showed a decline of but 32%. This, it was claimed, was far better than expectations and proved the stability of the fixed type. The tabulated list of the sixty-two companies included in the analysis is given herewith.

On January 6, 1930, quotations for the various Series were as follows: Original Series, 25 1/4; Series B, 18 3/4; Series C, 8 1/2. According to the prospectus, the offering price of the shares is derived from day to day "by figuring the aggregate market values of the deposited stocks at odd lot prices together with broker's commissions, accumulated dividends and a nominal charge not exceeding 6 1/2% of the sale price, which charge includes all expenses covering the deposit of stock, issue and sale of certificates and Trustee's fees with respect thereto in perpetuity."

In December, 1929, dividends at the following rates were declared on the Original Series, 56.180¢ regular and 50.196¢ extras; Series C, 15.123¢ regular and 11.328¢ extra. Dividends on Series B were paid in October.

The Trust does considerable research work and publishes a great deal of literature. Charts are prepared and intensive analyses made of the underlying securities. In this way, not only Diversified Trustee Shares, but many of the other trusts

an article in the *Journal of the Royal Society of Medicine* in 1911, in which he proposed a classification of the various types of the disease. This classification was based on the results of his own researches and those of other workers in the field. It was a classification of the various types of the disease, based on the results of his own researches and those of other workers in the field.

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arouse the interest of the investor. There is a certain amount of selling appeal created through the distribution of this kind of data. Those who make superficial surveys are more easily persuaded. The experienced investor, however, probably considers these as negligible in making his interpretations.

COLONIAL INVESTORS SHARES

Organized in January, 1928, Colonial Investors Shares is a common stock investment trust of the limited management type. It consists of units made up of 250 shares each, certificates being issued by the Union Trust Company of Maryland, Trustee, in denominations of 5, 10, 25, 50 and 100 shares. Underlying each unit are the common stocks of 41 different corporations, (7 railroads, 5 oils, 9 public utilities, 20 industrials) all listed on the New York Stock Exchange. The management is permitted to change the primary list and "to sell one or any of the underlying stocks whenever it may be deemed necessary or advisable to do so in order to avert a capital loss, or a cessation or substantial decrease in dividends, or to protect a capital gain. The Indenture further provides that the Trustee shall, at the direction of the Colonial Investors Corporation, reinvest all or any part of the proceeds of such a sale only in one or more of the following securities:

- "(a) Common stocks listed herein as "Alternate" stocks.
- "(b) Stocks already held by the Trustee as one of the components of the original Trust.
- "(c) Bonds, certificates and/or short term notes of the United States Government.
- "(d) Certificates of deposit of banks or trust companies having an aggregate paid-in capital, surplus and undivided profits of not less than Five Million Dollars (\$5,000,000) and situated in Baltimore, Maryland, or New York City, New York. However, not more than 5% in one bank or 15% in all shall be reinvested in

such certificates of deposit."*

Provision is made that any one of the 167 different common stocks may be included in the Trust and that 15 must be included. However, since organization but one change was made prior to the recent market break.

The stock was issued originally at 19 1/8. On September 10, 1929, it sold for 36 1/2, while during January, 1930, it has fluctuated around 25. The offering price, according to the prospectus of the Trust, "is based on the daily current price of the deposited stocks held by the Trustee, at odd lot prices and brokerage commissions plus the proportionate aggregate amount of accumulated dividends and other property held by the Trustee." To cover management and other expenses of distribution and issue, a service charge is made of 8%. Furthermore, three cents per share per annum is deducted from income before distribution of dividends for Trustee's expenses. These charges are frankly stated, it appears, in contrast with many trusts which evade this issue.

Regular dividends of fifty cents per share have been paid semi-annually to shareholders, with an extra dividend of twenty cents per share on August 15, 1929. In determining the income for distribution, proceeds from the sale of stock dividends and rights, as well as cash dividends received on the underlying stocks are included.

*Prospectus of the Trust, page 3

The usual convertible privileges are extended to shareholders, and the Colonial Bond & Share Corporation, the fiscal agent and manager, stands ready to purchase blocks of less than 250 shares, a handling charge of \$1.00 per share being deducted.

In studying the prospectuses of any of the various trusts, the investor must not be influenced by figures showing past performances of the underlying securities. Naturally from 1924 to the fall of 1929, remarkable appreciations in common stocks can be shown. Many stocks reached peaks that they are not likely to attain again, at least for some time to come. Trusts organized toward the latter part of the bull market paid unusual prices for their underlying securities, even though they may have been able to buy at the low for the year. How much increase, on an average, some of the gilt-edged securities can show in the next few years is for the future to reveal.

Perhaps the limited management feature of Colonial Investors Shares will prove beneficial and, later, probably a number of shifts will be made from the primary list to the alternate list in order to take advantage of stocks with greater future prospects. Just at present it would be rather far fetched to try to tempt the investor with such statements made previous to the market break, as, for instance, that \$5,000 invested in Colonial Investors Shares would amount to \$15,550 in 1934.

The following excerpts from a letter to the writer, dated

January 21, 1930 by the President of the Colonial Bond & Share Corporation, fiscal agents for Colonial Investors Shares, give an insight into the purposes and policies of this Trust and the unit type in general.

"In 1927, when our Trust was organized, the chief reliance of the purchasers of Investment Trusts seemed to be placed upon the House which was sponsoring the issue.

"Knowing little or nothing about the Management Type of Trust, the only safeguard possible, apparently, was to know that the underwriter had issued many fine securities in the past and might be expected to do so in the future.

"We felt at that time, as we do now, that even the best of Houses can make mistakes and that to choose a Trust blindly, because of faith in one element of the picture, was most unwise. The position which we took then was not the popular one. As a result, we had a lot of difficulty in disposing of our Shares, but in the past two years sentiment has greatly changed and we find it far easier today to sell our Shares, even in the depressed stock market than in the very best days of Trust stock sale.

"The record of our Trust, as well as those of the fixed type, where a portfolio is published regularly and is known to every Investor, proved, beyond doubt, that this was a vital factor in maintaining prices of these shares. For example, the average decline of our type of Trust was over 25% less than that of the average well-known management trust.

"We do not contemplate any great change in our Trust. The only one planned, at this time, is to pay slightly higher dividends this year than last and to put a smaller portion of the earnings into the Reserve Fund. We are doing this because we believe the general public is, for the moment, more interested in the cash returns on their investments than in the chances for great appreciation in the value of their stock.

"I might say here that our ability to regulate the dividend and to otherwise vary, slightly, the character of our Trust, to meet more precisely the general market conditions, is one of the great advantages of the Unit type of Trust like ours over the Fixed type of Trust. We lose no advantage of the Fixed type and

January 21, 1930 by the President of the Colonial Bank & Trust Corporation, fiscal agents for Colonial Investment Trust, after an insight into the purposes and policies of this Trust and the trust type in general.

In 1927, when our Trust was organized, the chief officers of the promoters of Investment Trusts seemed to be placed upon the same basis as representing the Trust.

Knowing little or nothing about the Investment Trust type, we only assumed possible, and, unfortunately, we in fact the administrator had seemed many times mentioned in the past. It was suggested to us in the future.

We told at that time, as we do now, that even the most honest and reliable and that we should be blindfolded, so to speak, to the claims of the promoters, and that we should be the beneficiaries of the Trust. The result was that we had a lot of difficulty in the selection of our Trust, but in the end we were convinced that the Trust was a good one and that it was the only one of its kind in the world. We were in the end convinced that the Trust was a good one and that it was the only one of its kind in the world.

The record of our Trust, as well as that of the Trust type, which is mentioned in the record, is a very good one. It is a record of the Trust type, which is a very good one. It is a record of the Trust type, which is a very good one. It is a record of the Trust type, which is a very good one.

We do not doubt that any Trust which is organized in our Trust type, and which is organized in our Trust type, is a very good one. It is a record of the Trust type, which is a very good one. It is a record of the Trust type, which is a very good one. It is a record of the Trust type, which is a very good one.

I think it is very clear that the Trust type is a very good one. It is a record of the Trust type, which is a very good one. It is a record of the Trust type, which is a very good one. It is a record of the Trust type, which is a very good one.

gain many advantages of the Management type. This is accomplished without losing sight of the public's desire to know exactly what we are doing, at all times, and their need of determining the actual cash value of their certificates daily, which can be done, in our case, by reference to the morning newspaper and a check with the market prices of our stocks."

also may advantage of the large amount of
blended without loss of the quality of the
quality that we are going to give them, and their
restoring the natural appearance of the
which can be done, in fact, by reference to the
paper and a check with the natural color of the

CHAPTER V

RECENT TRENDS

1. 1874

2. 1875

The enthusiastic manner in which the American public accepted the investment trust idea has resulted in a great increase in the number and varieties of these organizations as well as in their total capitalization. Similar to the English experience of 1890 when a trust mania was in full swing abroad, the American trusts have followed "fast upon each other's heels".*

The figures given by different sources as to the number of investment trusts vary, due to the fact that sufficient care is not exercised in distinguishing them from holding, trading, and security companies. Barron's for July, 1928 states that there were at that time 207 trusts in the United States and Canada with 44 of the special or fixed type.

Carl Williams in an article in the Magazine of Wall Street for September 21, 1929 gives the following estimates. In 1924, he writes, there were probably not more than 15 such trusts in existence, possessing assets of possibly about 14 millions of dollars. In 1925, there were perhaps 48 companies with 150 millions as compared with 150 companies having 700 millions in 1927. Today, Mr. Williams estimates that there are over 400 such companies operating with resources in excess of two billion dollars.

The first quarter of 1929 was the period of greatest activity in the formation of new trusts. In the second quarter

*London Economist, April 6, 1889

The same analysis was made in 1953 when the American...
...the investment...
...in the number and variety of these organizations as
...as in their total capitalization. Similar to the English
...experience of 1953 when a first series was a full value effect
...the American firms have followed "back upon each other's heels".
...The figures given by different sources as to the number
...of investment firms vary, due to the fact that different
...is not contained in statistical data from holding firms.
...and security companies. Barrow's for July, 1953 states that
...there were at that time 207 firms in the United States and
...Canada with 44 of the special or listed type.

Carl Williams in an article in the magazine of Wall Street
...for September 21, 1953 gives the following estimates. In 1954
...he writes, there were probably not more than 15 such firms in
...existence, possessing assets of possibly about 10 million of
...dollars. In 1955, there were perhaps 45 companies with 150
...million as compared with 100 companies having 200 million in
...1957. Later, Mr. Williams estimates that there are now 450
...such companies operating with resources in excess of two billion
...dollars.

The first quarter of 1955 was the period of greatest ac-
...tivity in the formation of new firms. In the second quarter
...Investment Economics, April 6, 1955

there was a decided falling off in the issuance of all types of securities including those of the investment trusts. To quote from Barron's of July 15, 1929:

"Against investment-company offerings in the first three months approximately \$750,000,000 in shares and bonds, the next three months produced less than one-third of that amount. There was none of the huge aggregates of new capital raised as in the instances of Tri-Continental Corporation, Chicago Corporation, Alleghany Corporation and others the first three months.--- Thirty-three investment trusts and companies loosely characterized as such offered stocks of one type or another, units, allotment certificates, participating certificates and debentures in the second quarter, in addition to which there were flotations of certificates for four fixed trusts based on Standard Oil Company shares. In the first quarter there were 51 offerings. The second quarter total was \$238,246,000 of which \$30,000,000 consisted of bonds and \$208,246,000 of stocks. In the first three months the total was \$745,056,750, of which \$184,000,000 was bonds and \$596,056,750 shares."

Although the custom of the first trusts organized in this country was to follow in some respects at least the British plan of capital structure, later trusts have developed according to their own patterns. While most British trusts issue bonds and preferred stock as well as common stock to raise and increase their capital, many of the American trusts have capital represented by common shares alone. The figures quoted above from Barron's illustrate the tendency toward a capital structure consisting of common stock only, the second quarter showing roughly only 12% of the offerings in the form of bonds while the first quarter showed nearer 25%. Probably the bonds, for the most part, were in the form of convertible debentures. Moreover, some com-

There was a decided falling off in the issuance of all types

of securities including those of the investment trust.

quote from Bureau of July 15, 1933:

"Against investment-company offerings in the first three months approximately \$750,000 in shares and bonds, the next three months produced less than one-third of that amount. There was some of the same magnitude of the capital raised in the issuance of 171-Consolidated Corporation, Delaware Corporation, Albany Corporation and others. The first three months thirty-three investment trusts and companies issued securities, a much smaller number of one type or another, and some of the most distinguished, participating in the first three months. In addition to which there were offerings of certificates for four listed trusts issued on October 21. During the month. In the first quarter there were 21 offerings. The second quarter total was \$225,215,000 of which \$100,000,000 consisted of bonds and \$125,215,000 of stocks. In the first three months the total was \$745,025,750, of which \$345,000,000 was bonds and \$400,025,750 stocks."

Although the number of the first trusts provided in this

country was to follow in some respects at least the British

plan of capital structure, later trusts have developed more

and to their own patterns. While most British trusts have been

and preferred stock as well as common stock in large and small

their capital. Many of the American trusts have capital

equity or common shares alone. The American trusts have been

known to finance the company loans a capital structure con-

sisting of common stock only, the second quarter showing roughly

only 12% of the offerings in the form of bonds while the first

quarter showed nearly 50%. This is the reason for the high

rate in the form of convertible debentures. However, this was

panies have issued preferred shares, sometimes callable, often made attractive by a conversion or profit-sharing provision. Possibly the latter have been issued with the idea that in the case of declining interest rates this preferred stock could be recalled, while long term bonds would have to be carried at high rates of interest.

As a number of trusts have recently placed most of their funds in common stocks owing to their effort to take advantage of the bull market of the past few years, it is but natural that since they are dependent upon a variable income they deem it unwise to issue bonds and preferred stocks and be obliged to meet fixed charges. A number of financial writers contend that the capital structure of the American trusts is in keeping with American security markets and the temperament of the American people. They express the opinion that these trusts weathered the recent break in the market without the tragic results that the early British trusts suffered at the time of the Baring crisis primarily because they had no large amounts of fixed obligations to meet.

The continued bull market from 1924 to the latter part of 1929 gave the investment trust movement an impetus and caused it to develop along lines which were not conceived in its early stages. Even the most conservative trusts turned increasingly

panies have issued preferred shares, sometimes convertible, often made attractive by a conversion or profit-sharing provision. Possibly the latter have been issued with the idea that in the case of declining interest rates this preferred stock could be resold, while long term bonds would have to be converted at high rates of interest.

In a number of cases have recently planned that of their funds in common stocks owing to their effort to take advantage of the bull market of the past few years. It is not surprising that since they are dependent upon a variable income they deem it unwise to issue bonds and preferred stocks and are obliged to meet fixed charges. A number of financial writers contend that the capital structure of the American firms is in keeping with American security habits and the temperament of the American people. They express the opinion that these firms will not be forced to look for funds in the market without the firms' funds that the early 1930's firms withdrew at the time of the falling stock prices. They believe that they had no large amounts of fixed capital to meet.

The continued bull market from 1926 to the latter part of 1929 gave the investment firms movement in issues and caused it to develop along lines which were not concerned in the early stages. Even the most conservative firms have increasingly

large parts of their funds into common stocks. The Investment Bankers' Association of America at its convention in October, 1929 reported regarding investment trusts that "investment has been chiefly in common stocks in the ratio of 12 or more to one against bonds; and the stocks of the big holding companies have been particularly attractive."

All kinds of literature and advertising have appeared on every hand to demonstrate to the investor the advantages of common stocks. Studies made by Kenneth S. Van Strum in his book "Investing in Purchasing Power" and by Edgar L. Smith in "Common Stocks as Long Term Investments" are frequently used to prove how, over a period of years, the average income from a group of diversified common stocks would net an excellent return. Both of these writers are quoted to illustrate the manner in which the man of no "investment intelligence" might have averaged as much as 31.3% annually on his original investment merely by selecting ten diversified common stocks by "rule of thumb" and holding them over the first quarter of the present century. Professor Fisher's theory is used to explain how common stocks offset the possible loss in the purchasing power of the dollar. While it is admitted that some stocks may show a temporary recession, the figures of Edgar Smith prove valuable in arguing the point that the "time hazard" is small. This well-known economist has prepared statistical data which presents an analysis of a

Large part of this work has been done by the
Investment Association of America at its convention in
October, 1929 reported regarding investment circles that
"Investment has been chiefly in common stocks in the fall of
1929 and more to one capital bond; and the stock of the big
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common stocks. Studies made by Kenneth A. Van Dine in his book
"Investing in Bonding Power" and by Edgar J. Smith in
"Common Stocks as Long Term Investments" are frequently used to
prove how, over a period of years, the average income from a
group of diversified common stocks would not be an excellent return.
Both of these writers are quoted to illustrate the manner in
which the man of no "Investment Intelligence" might have proceeded
as much as 50% annually on his original investment merely by
a selection of diversified common stocks by "rule of thumb" and
held on them over the first quarter of the present century.
Investment writer's theory is used to explain how common stocks
offset the possible loss in the purchasing power of the dollar.
While it is admitted that some stocks may show a temporary increase,
the figures of Edgar Smith prove valuable in showing the
point that the "time passed" is small. This well-known economist
has prepared statistical data which presents an analysis of a

period covering eighty-five years (1837-1922 exclusive of 1878-1883) and sets forth the theory that over a period of time diversified common stocks, bought as a group and held as a group, will show a profit, the only hazard being that of time which, in this study, proved to be four years.

Naturally the prospectuses and offering circulars of the investment trusts are particularly optimistic in their statements. The economic conditions in this country have been unusually favorable to common stocks, but the stocks of many organizations have not met satisfactorily all the tests of a desirable investment. The concerns which have achieved success have been those which have ploughed back earnings. The investor must bear in mind that common stocks are not a definite promise to pay dividends and that the earnings of most companies, particularly the industrials, fluctuate widely from year to year. Moreover, there have been numerous cases of the complete collapse of an industry as, for instance, the American Bicycle Company.

The selective market of 1929 and the spectacular rise in the price of certain securities have been attributed in part to the investment trust. Although there was a great inflation in the prices of the stocks of the investment trusts as there was in those of the "blue chip" securities, the public seemed willing to purchase almost any investment during the so-called rising market which, however, was in reality a "hidden bear"* market.

*Cleveland Trust Bulletin, November 15, 1929

period covering thirty-five years (1885-1920 exclusive of

1870-1885) and sets forth the theory that over a period of

the diversified company theory, bought as a group and held as a

group, will show a profit, the only reason being that of time

which, in this study, proved to be four years.

Basically the proceedings and editing committee of the

investment firms are particularly optimistic in their estimate.

The economic conditions in this country have been unusually favor-

able to common stock, and the success of many organizations have

not met satisfactorily all the needs of a desirable investment.

The companies which have achieved success have been those which

have planned back carefully. The investor must bear in mind that

common stocks are not a definite promise to pay dividends and

that the earnings of most companies, particularly the industrial,

the more widely known firms in fact, however, there have been

several cases of the complete collapse of an industry and the

therefore, the investor must be careful.

The relative value of 1920 and the speculative rise in the

price of certain securities have been attributed in part to the

investment trust. Although there was a great interest in the

price of the stock of the investment trusts as there was in

cases of the other stock market, the public began to

to purchase almost any investment offered in a so-called rising

market. However, in 1921, a "market crash" occurred.

Cleveland Trust Bulletin, November 15, 1921

It was, in fact, estimated that from 40% to 50% of the active shares listed on the New York Exchange showed minus rather than plus signs during 1929. Some of the less conservative investment trusts were selling their stock at prices which were ten to fifteen times above the actual, basic values of the securities underlying them. R. W. McNeel, director of the McNeel's financial Service, declared, "There will be no end to buying of choice stocks so long as it is possible to buy them, issue investment trust stocks against them and sell these to the public at two to three times the market values of securities purchased." He stated that on this basis many investors were paying \$800. for General Electric; \$600. for American Telephone, \$400. a share for Consolidated Gas of New York.*

A great difference of opinion was expressed regarding the effect of the investment trusts on the rising market which preceded October, 1929. Many agreed with McNeel that these trusts, concentrating on a comparatively small number of the best issues and taking them off the market in large blocks, were the cause of the increase in price of these stocks rather than any real growth in the earning power or any fundamental change in the companies they represented. As a great many of these investment trusts were organized during 1928 and 1929, it is probably true that they took stocks out of the market and to some extent increased the scarcity value of the "blue chip" issues.

*Boston Herald, August 26, 1929

It was, in fact, estimated that from 50% to 60% of the active shares listed on the New York Exchange showed minor interest. Some of the less conservative investors were buying their stock at prices which were far below the market value of the securities. E. W. McKelvey, director of the McKelvey Trust, declared, "There will be no end to buying of shares as long as it is possible to buy them, these investments have been and will continue to be made at two to three times the market value of securities purchased." He stated that on this basis many investors were paying \$1000 for General Electric, \$800 for American Telephone, \$400 a share for General Motors and \$200 for New York.

A great difference of opinion was expressed regarding the effect of the investment trusts on the rising market which preceded October, 1929. Many agreed with McKelvey that these trusts, concentrating on a comparatively small number of the best issues and holding them off the market in large blocks, were the cause of the increase in price of these stocks rather than any real growth in the intrinsic power or any fundamental change in the companies they represented. In a first group of these investment trusts were organized during 1928 and 1929, it is probably true that they took shares out of the market and to some extent increased the market value of the "blue chip" issues.

Boston Herald, August 28, 1929

In many instances, however, particularly in the summer and early fall of 1929, investment trusts issuing new securities to raise additional capital did not hasten to invest in stocks and bonds, but put their newly raised capital into the call loan market where the rates were particularly attractive. For instance, the prospectus of the Pacific Investment Corporation as of December 31, 1928, stated: "In a period of great market uncertainty such as 1928 has been, this policy has the merit of fairly well assuring safety of principal and reasonably satisfactory income. It has involved casting aside what have seemed like brilliant profit opportunities in the interest of safety.

The percentage of the total fund employed in each class of investment is as follows:

Cash and Call Loans.....	46.8%
Domestic Bonds.....	9.1%
Foreign Bonds.....	4.7%
Preferred Stocks.....	18.5%
Common Stocks.....	20.9%
	<hr/>
	100.0%
Largest investment in any one security.....	1.3%"

Possibly, as a number of trusts later claimed, they sensed the approaching storm and were better prepared for the emergency because of their liquid funds. The November 25, 1929 issue of "The Investment Trust Review", published by Steelman & Birkins, 40 Broad Street, New York, states that in a survey made just

in many instances, however, particularly in the number and nature of the investments, investment income received was restricted to the additional capital did not have to be invested in stocks and bonds but that their newly raised capital into the real estate market where the rates were particularly attractive. For instance, the

prospects of the Pacific Investment Corporation as of December 31, 1936, stated: "In a period of great market uncertainty such as 1936 has been, this policy has the merit of being it will assuming safety of principal and reasonably satisfactory income. It has involved dealing with risks that have caused the brilliant profit opportunities in the interest of safety. The percentages of the total fund employed in each class of

investment is as follows:

Cash and U.S. Bonds.....	40.8%
Domestic Bonds.....	4.1%
Foreign Bonds.....	4.7%
Preferred Stocks.....	18.3%
Common Stocks.....	32.2%

100.0%

Percent investment in any one country..... 1.5%

Percent, as a number of private letters claimed, they wanted the approximately 10% and were never prepared for the security of their funds. The November 25, 1936 issue of "The Investment Fund Review", published by Stearns & McKim, 60 Broad Street, New York, stated that in a survey made last

previous to the market break twenty companies showed a call and loan position of 31 1/8% and that in some instances, cash and call loans exceeded 50% of the total resources.

The Cleveland Trust Company Business Bulletin for November 15 emphasizes the same line of thought. It explains that the sudden appearance of the increase in brokers loans in the early fall of 1929 was due to the investing public selling its stocks to buy the issues of the investment trusts while the latter lent these funds to brokers in order to await lower market prices of stocks. Although not holding the trusts responsible for the market break, the Bulletin states that they probably were an indirect cause due to the investor shifting from the stocks of corporations to those of the investment trust and thereby weakening the market in general because, in many cases, stocks of all kinds were sold in order to buy the new issues of the trusts. Then, after the break, according to the Bulletin, when the declines were greatest, the trusts bought securities and there was a corresponding decline in brokers loans.

While unquestionably some trusts were able to pursue a course similar to that described above and were ideally situated so that they could protect themselves against adverse market conditions, numbers found themselves in a precarious position. Previous to the break many experts had contended

previous to the market break twenty companies showed a fall
and four positive of 25% and that in some instances, some
and half loans exceeded half of the total resources.
The Cleveland Trust Company Business Bulletin for
November 10 emphasizes the same line of thought. It explains
that the sudden appearance of the increase in stock prices in
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While undoubtedly some funds were able to pursue a
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position. Previous to the break many experts had suggested

that in the event of a reaction the investment trusts would prove a stabilizing factor in the market, that they would, in fact, make the market panic-proof. Skilled management was expected to take the place of mob psychology. In the event of trouble, it was anticipated the investment trusts would step in and with the huge sums of capital at their command, buy the stocks as they moved downward.

It was true that some trusts did follow this idea. During the earlier part of the reaction a number of the large investment trusts reported that they were not liquidating but were buying and adding to their portfolios. President Seagrave of the American Founders Corporation in an address to the shareholders at their meeting on November 12, 1929 stated, "Having a constant policy of maintaining liquid assets and cash, American Founders Corporation and its four affiliates were found in a strong cash position at the time of the decline and were also able, to the extent desired, to withdraw funds from abroad by the sale of certain foreign securities, so that they were able to make substantial purchases of certain undervalued American common stocks at advantageous prices." Incorporated Investors, in its publication*, informed its shareholders that the management had been able "to buy into the market at these reduced levels, thus lowering the cost of the securities held."

*"The Incorporated Investor", published by the Parker Corporation in the interest of Incorporated Investor Shareholders-Vol. II, No.10

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offset losses at home. American Bankers Corporation, therefore,
in its position, without its shareholders that the company
and had been able to pay into the market as these reports
developed, thus lowering the cost of the market as well."

"The Incorporated Investor," published by the United States
Office in the interest of Incorporated Investor, No. 10
Vol. 11, No. 10

On the whole, however, there was apparently no concerted action on the part of the trusts either at the top or at the bottom of the market. While a number cut down their holdings before the break and, as previously stated, placed their realized profits with other capital raised through the sale of new issues on call, many of them found themselves with small reserves and had no available funds with which to take advantage of the drop in security prices.

Even if the various trusts had been able and willing to act concertedly and follow the same tactics, it is doubtful if they could have exerted any marked influence. It is estimated that the total cash resources of all the trusts was somewhere between \$500,000,000. and \$750,000,000. With the total listing of the stocks and bonds of the New York Stock Exchange valued at \$90,000,000,000. and with a market decline in the recent break of approximately \$32,000,000,000., it is obvious that the trusts did not possess the powers that many believed them to have.

The New York Times, October 27, 1929, suggested, nevertheless, that "If the trusts were to pool their resources, however, in the manner which the country's leading bankers adopted in Thursday's crisis, it is believed that they might stabilize pivotal issues and check an avalanche of selling. Such a development might be a possibility in the future."

Says Theodore M. Knappen in the Magazine of Wall Street for November 30, 1929*, "it is by no means certain that they (the investment trusts) met the culmination and collapse of the bull market with much greater wisdom and coolness than the individual." Those trusts which supported their own shares and repurchased the stock outstanding in so far as possible, were able to maintain prices more in keeping with the true values than those which left their stock unsupported. The trusts which were ably managed and particularly the older trusts which had created a surplus and reserves over a period of several years fared best. Most of the trusts lost at least from 40% to 50% of their previous high levels. The majority, nevertheless, suffered no more than many of the industrials and public utility stocks. The following shows the fluctuations of ten representative trusts with capital of over \$10,000,000.

Stock**	Range		November 22, 1929	
	High	Low	Bid	Asked
American British & Continental Corp.	22 5/8	5 1/8	7 1/4	8
American European Securities Co.	98 1/2	23	35	36
American International Corporation	96 3/4	29 1/2	43	43 1/8
General Public Service Corporation	98	20	34 1/4	34 1/2
Mayflower Associates	101 3/8	46 1/8	50	51
National Bond & Share	96 1/2	25	40	
Reybarn Corporation	59	25	25	30
Selected Industries	31 3/8	4	8 3/4	9
Tri-Continental				
Allied	104 1/2	45 1/8	54 3/4	55

* Page 184

** Figures taken from "The Investment Trust Review, Nov. 25, 1929

After the break many of the trusts found themselves with "unrealized losses" instead of "unrealized profits". Notwithstanding the fact that most of the trusts had widely diversified their holdings, the value of their portfolios was considerably diminished. This may mean only "paper loss", but, in many instances, it will probably be some time before the market values recover sufficiently to equal even the original cost.

The real issue is did the investment trusts do better than the individual investor could have done for himself? Many different opinions have been expressed as to the manner in which the trusts met their first test, but, at best, these are but generalizations. Most authorities seem to agree that on the whole the trusts compared favorably with the average investor and that they excelled the average marginal trader. Yet this can scarcely be considered a satisfactory showing when the primary objective of the trust is to surpass the individual investor and give him a high degree of safety coupled with a return in excess of what he could secure by placing his money in the savings bank. It is with good reason expected that the securities issued by a trust will hold fairly firm and not fluctuate widely, that they will be truly an investment rather than a speculation. The criticism made during the recent break that the securities of the trusts fell off markedly is met by the trusts with the statement that this was an abnormal recession and

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points which the statement that this was an abnormal reaction and

that the values of the very best securities fell off along with the speculative issues. They claim that the stocks of the investment trusts were forced down to lows which were unjustified when measured in terms of the book values and earning power of the trusts.

One fact, at least, seems to be decidedly in favor of the investment trusts and that is none were wiped out during the break. The only trust that has failed recently is the Bankers Capital Corporation of Connecticut, a member of the Bankers Financial Trust Group. Its failure was not due directly to market conditions but rather to unwise policies on the part of the management. The big profits reported as earned by the corporation were not actually realized. Instead, large dividends were declared on so-called "earnings" which included unrealized profits computed on the sale of stock made to one of its subsidiaries.

Undoubtedly, as time passes, a number of trusts will find it to their advantage to liquidate. Others will be obliged to join forces with stronger, more successful organizations. From their inception, many trusts have featured interlocking directorates and other forms of control such as that invested in the management corporation or in the banking houses by which they were sponsored.

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its subsidiaries.

Consequently, at this season, a number of trusts will find
it to their advantage to liquidate. Others will be obliged to
do so because with extremely low market prices, their income
statements will show heavy losses. Many funds have reported interest losses
because and other forms of assets such as that included in the
management corporation in the current losses of which they
were members.

One of the outstanding examples of a combine already organized is that of the Goldman Sachs Trading Corporation which was incorporated in December, 1928 with a capital of \$102,500,000. Within nine months (December, 1928 to September, 1929) this company has issued three units of more than \$100,000,000. and doubled the market value of its shares. Each of the three units sold at a market valuation of between \$200,000,000. and \$300,000,000. By merging with the Financial and Industrial Securities Corporation, the Company's assets became \$235,000,000. On July 24, 1929, the Shenandoah Corporation, a financial investment trust of the general management type, was formed as a subsidiary of Goldman Sachs and the Central States Electric Corporation. It included in its original assets 238,096 shares of Goldman Sachs Trading.

To aid in organizing a subsidiary of its own, namely the Blue Ridge Corporation, the Shenandoah sold a considerable quantity of its common and preference stock to Goldman Sachs Trading. The Shenandoah took 6,250,000 shares of Blue Ridge common at \$10. a share, the remaining share, one million, being offered to the public for \$20. In transactions of inter-company purchases it is customary for the parent company and the new unit to sell one to the other at prices below the offering price to the public or the current market quotations.

One of the outstanding examples of a company already
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1932) this company has raised three times of more than
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of the three times sold at a market valuation of between
\$200,000,000 and \$300,000,000. By buying with the proceeds
and industrial companies Corporation, the Company's assets
became \$325,000,000. On July 24, 1932, the Standard Oil
Company, a financial investment arm of the general management
type, was formed as a subsidiary of Golden Sachs and the
General States Electric Corporation. It included in its original
assets \$25,000,000 worth of common stock trading.
To aid in organizing a subsidiary of its own, namely the
State Electric Corporation, the Standard Oil sold a considerable
quantity of its common and preferred stock to Golden Sachs
Trading. The Standard Oil sold \$25,000,000 worth of State
Electric at \$10. a share, the resulting share, one million, being
offered to the public for \$20. In transactions of later company
purchases it is equivalent for the parent company and the sale
to sell one to the other at twice the price before the offering price is
the value of the company's assets.

This interlocking has resulted in big paper profits to all three corporations. It has also made the Goldman Sachs group of investment trusts the largest in the world, the aggregate market value of their capital securities exceeding one billion dollars.*

A principle hitherto never applied to investment company financing, although it has been used commonly by holding companies, was adopted by the Blue Ridge Corporation at the time of offering its stock to the public. Units of Blue Ridge common and preferred stock were offered in exchange for any of the stocks of twenty-one corporations, recognized leaders, on the basis of their market value at that time. The Blue Ridge shares were valued at their offering price which was somewhat below the market price. The purpose of making this offer was announced as being with the intent of accumulating good investment holdings without necessitating the going into the market in competition with other buyers, and not with the idea of acquiring control of the several companies whose stocks were being exchanged.

Two days after the offer was made the company closed it without explanation. Probably the reason was that speculators as well as the permanent investors which the company was seeking were taking advantage of the offer. The management has signified that investors may still tender their holdings to the

*Boston Herald, July 24, 1929

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A principle which has never applied to investment companies
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without explanation. Evidently the reason was that speculators
as well as the permanent investors which the company was aiming
were taking advantage of the offer. The management had esti-
mated that investors may still prefer their holdings to the

Blue Ridge Corporation subject to a private offering of exchange. During the recent recession in the stock market, however, Blue Ridge Corporation could have been purchased for \$3.00 per share so, for the present, there would be no desire on the part of the public to wish to make the exchange.

The Goldman Sachs Trading Corporation, listed on the New York Curb, fluctuated from a high of 121 1/4 to a low of 32.*

Whether the type of organization that so closely resembles a holding company can be considered as an investment trust, even though it holds itself forth as being such, is a matter of question. In the future a sharp differentiation will probably be made between holding and trading corporations and other ventures which are not strictly of an investment character.

Other mergers are now being planned. Negotiations have been arranged to merge the Tri-Continental Corporation and the Tri-Continental Allied Company, Inc., affiliated investment companies, into a single corporation to be known as Tri-Continental Corporation. Financial Investing Co. of New York, Ltd. and the Domestic & Overseas Investing Co., Ltd. are planning to merge with Federated Capital Corporation under the name of the Atlantic Midland Corporation. The latter's portfolio will consist of the bonds of approximately one hundred fifteen different companies and of the stocks of over one

*See Appendix, page 12a

This large corporation subject to a private offering of stock.

During the recent recession in the stock market.

however, since the corporation would have been purchased for

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The Columbia Radio Trading Corporation, listed on the

New York Curb, fluctuates from a high of \$11 1/4 to a low of

\$5.00.

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and the Domestic & Overseas Investment Co., Ltd., are

planning to merge with Federal Reserve Bank Corporation under the

name of the Atlantic National Corporation. The latter's prop-

erty will consist of the bonds of approximately one hundred

fifteen different companies and all the bonds of over one

hundred million dollars.

hundred companies. To how great an extent these alliances can be carried successfully is a problem for the future.

In Great Britain, grouping among trusts is the rule, but it is difficult to make comparisons because conditions here are not parallel to those abroad and the primary objective there is not control as proves so often to be the case in America.

Advantages are claimed for merging in that (1) more experienced and efficient management can be retained and that these managers can establish better "connections" and "contacts"; (2) overhead expenses are lessened; (3) a broader resale market can be secured. There are, nevertheless, disadvantages in that (1) although control is in the hands of a few, high-salaried, capable executives, this does not necessarily mean that they can keep in close touch with all developments; they must, necessarily, rely to a certain extent on less capable subordinates; (2) although expenses may be lessened by avoiding duplication of effort they are, on the other hand, increased because of the tendency of the large organizations to do things on a big scale, for instance, to maintain expensive headquarters and to advertise extensively.

Another objection as pointed out recently by Theodore M. Knappen in an article on investment trusts is that of "funnelizing of control" into the hands of a few.* His theory is that the original investor is likely to lose his independence because

*Magazine of Wall Street, November 30, 1929, page 185

...to the fact that these conditions are
...is entirely unnecessary in the future.
...in these fields, especially those which are
...it is difficult to make comparisons because conditions here are
...not related to those which are the object of the study. There is
...not control as there is often to be the case in the future.
...advantages are claimed for making the study in the future
...performed and efficient management can be obtained and that
...these managers are entitled to better "compensation" and more
...tasks; (2) overhead expenses are reduced; (3) a better
...safe which can be obtained. There are, nevertheless, some
...advantages in that all through control in the future of a firm
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...subordinates; (3) efficient executives may be induced by avoiding
...application of effort that are, on the other hand, likely to
...because of the tendency of the large organizations to be
...on a large scale, for instance, to maintain extensive facilities
...and to acquire machinery.

Another objection is raised on account of the expense of
...changes in an article on investment costs in that it is
...being of control into the hands of a few. The reply is that
...the capital investment is likely to be the same as before.

...of the future, November 30, 1933, page 10.

the "investment trust interposes an impassable barrier between the ultimate investor and the direction of corporations." He suggests the possibility of monopolization of investing power in a few hands possessing but a small minority of actual ownership and capturing an excessive part of the profits. Probably, however, before this comes to pass, restrictive legislation will prevent dangerous merging and interlocking and forbid abusive practices which have already arisen or might arise.

Various states have already adopted regulations, and there has been considerable controversy as to which is better, public regulation or self-regulation by the trusts from within.

In 1927, the Attorney-General of the State of New York, Mr. Ottinger, began investigations of the investment trusts which culminated in a "Survey", and later, a "Supplemental Survey". Several months later a bill, based on the results of the study of the Attorney-General and his aides, was proposed for legislation. The idea was that the Banking Department of the State of New York should determine whether or not those wishing to form investment trusts within the State should be given the privilege of operating and that this Department should also supervise their activities. After a great deal of revision, the bill passed the State Senate but was rejected by the Assembly.

Although the report was accepted by many business men and financial leaders, others, particularly financial writers, poured a flood of criticism upon the Attorney-General. Carl Randau, New York Telegram financial writer, in the issue of the Telegram for February 8, 1927, condemned the Attorney-General for using his office to promote the interests of the management type of trust to the detriment of the fixed type. He remarked furthermore, "Many of the bankers and legal experts of Wall Street still hesitate after years of investigation to express definite opinions on what should be the proper activities of investment trusts, nor have they been able to agree on definitions. The representatives of the State, however, displayed no such hesitancy."

An editorial from the Boston News Bureau, reprinted in the Wall Street Journal of November 30, 1927, stated, "Mr. Ottinger's proposals have been read with interest by Boston bankers. Briefly, he would have legislation placing investment trusts under supervision of the State banking department, liberalizing the tax laws with regard to such institutions, requiring investment trusts to deposit a minimum forfeit in New York State of United States Government bonds with the State, and limiting the power of investment trusts to issue bonds."

"All this sounds like a set of regulations for a banking

Although the report was accepted by many business men and financial leaders, others, particularly financial writers, poured a flood of criticism upon the Attorney-General. Carl Randau, New York Telegram financial writer, in the issue of the Telegram for February 6, 1927, condemned the Attorney-General for making his office to promote the interests of the management type of firm to the detriment of the stock type. He remarked furthermore, "Many of the bankers and legal experts of Wall Street still hesitate after years of investigation to express definite opinions on what should be the proper policy of investment trusts, nor have they been able to agree on definitions. The representatives of the State, Federal, Municipal and such bodies."

An editorial from the Boston News Bureau, reprinted in the Wall Street Journal of November 20, 1927, stated, "It is generally supposed that there has been some kind of interest by Boston bankers, lawyers, and other legislative planning investment trusts under supervision of the state banking department, liberalizing the tax laws with regard to such institutions, and making investments more to deposit a certain portfolio in New York State or United States Government bonds with the state, and limiting the power of investment trusts to issue bonds."

"All this sounds like a set of regulations for a market"

institution. Emphatically the investment trust is not a bank."

The New York Journal of Commerce of November 30, 1927 was even more outspoken stating, "The incomplete and half-baked character of the recommendations recently made in the attorney general's investigation and the apparent lack of understanding of investment trust principles which prevails in many quarters show that the principles of investment trust management, whether understood by experts or not, have at all events not been sufficiently worked out to find acceptance on a general basis. Legislators find it hard enough to legislate carefully when there is pretty general acceptance of fundamental ideas in a given field."

While legislation was pending in New York, California and Utah passed laws stipulating requirements with which the trusts were obliged to comply before selling securities within these states. While in a number of other states rules of one sort or another were imposed, for the most part trusts were classified as falling within the "blue-sky" laws. The most recent step taken in the matter of regulation has been made by the State of New Hampshire. Following are the rules in detail regarding reports.*

1. Period of filing Jan.1 and July 1. Compilation of company affairs shall relate to its business for the previous six months. If the department date of filing conflicts with issuer's established system of auditing accounts relative to

*Set forth in letter from Insurance Commissioner John E. Sullivan as published in United States Daily, Vol. IV, No. 207

institutions. The investigation is not a mere

The New York Journal of Commerce of November 10, 1937 was

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done in the matter of regulation has been done by the State of

New Hampshire. This is the policy in detail regarding

reporting.

1. Period of filing and July 1, 1937.

Company filing shall be made to the Registrar for the period

six months. If the Registrar has not filed the report with

Registrar's established system of public accountants.

*The form is found in the Registrar's Handbook for the Registrar

as published in the New Hampshire Bulletin, Vol. 1, No. 1.

date of filing, such will be made optional with company by affording sufficient notice of semi-annual reports to the department.

2. Schedule of all securities held in portfolio of company.

3. Book value and market value.

4. Exchange of securities. Gain and loss in exchange of securities.

5. Interest and dividend income.

6. Appreciation or depreciation of securities held in portfolio.

7. Income and disbursements.

8. Assets and liabilities.

Since the market break most writers on the subject believe that guidance of some kind is desirable. The tendency seems decidedly toward publicity. The bankers feel that this publicity will prevent objectionable practices. At the same time, the investor, protected by the state against fraud, will be provided with sufficient facts and information to enable him to use his own discretion.

At the convention of the Investment Bankers Association of America in October, 1929, Mr. Charles D. Dickey, Brown Brothers & Co., Philadelphia, in his report expressed the hope that no attempt would be made to curb the trusts because of inflation of prices which, he claimed, were the inevitable consequences of a speculative period. He stated, "It is to be hoped that

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attention sufficient notice of semi-annual reports to the
Department.

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4. Statement of securities. Gain and loss in volume of
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6. Appreciation or depreciation of securities held in
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7. Income and expenditures.

8. Assets and liabilities.

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first guideline of some kind is desirable. The secondary reason

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such inaccuracies (he referred to exaggerated statements regarding the part investment trusts were playing in the stock market and to the reported concern of Congress that fifty per cent of the investments of the trust were in foreign securities) and the urge to act will not influence either state or federal authorities to hasten the enactment of restrictive legislation. We have many examples of the evils of over regulation by the government in other fields and it is difficult to see how the one important factor in this field, namely, the management, can be obtained by regulation."*

In order to increase public confidence, it is very possible that the trusts themselves may be the means of bringing about regulations. Many trusts are publishing full annual statements and some are submitting quarterly reports to shareholders. There is a marked trend toward revealing portfolio holdings. In the case of the management type of trusts these holdings may, of course, be shifted constantly, so perhaps the investor will not profit much from such disclosures.

If the recently granted privilege is availed of by the investment trusts, one of the greatest influences for promoting uniform practices among these companies will be the requirements for admission to listing on the New York Stock Exchange. However, only a few trusts have joined the group of those whose securities are traded in on the "big board". Among these are American

*Boston Herald, October 17, 1929

with immunities (as referred to elsewhere in this report) regarding the past investment trusts were playing in the stock market and in the reported concern of investors that fifty per cent of the investments of the trust were in foreign securities) and the wife to see with not infrequent effect state or federal authorities to handle the enactment of restrictive legislation. We have many examples of the evils of over regulation by the government in other fields and it is difficult to see how the one important factor in this field, namely, the management, can be obtained by regulation.

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Report made, October 15, 1933

International Corp.; American European Securities Company;
Continental Shares, Inc.; General Public Service Corp.;
Insuranshares Certificates, Inc.; Standard Investing Corpora-
tion; Sterling Securities Corp.; United Founders Corporation;
United States and Foreign Securities Corp.

Requirements for listing cover such matters as (1) summary of all important provisions in the charter, articles of incorporation, by-laws, etc; (2) management, method of computing compensation for same, including options, warrants and other forms of indirect compensation; (3) aggregate value of capital, surplus and funded debt; (4) costs of organization and selling expenses of each class of security; (5) charging by the managers of the trusts of only "customary commissions on listed securities and reasonable commissions on unlisted securities"; (6) right to vote and its application to all classes of stocks together with provision that non-voting stocks shall not be listed unless "substantially preferred as to both dividends and assets"; (7) statements of earnings and of surplus, together with a balance sheet to be published annually; (8) earnings, and what they are to include; (9) method of treating profits from syndicate participations; (10) statement showing a list of the holdings of the trusts, the price at which securities were purchased, with a proviso that up to 10% of the invested capital may be grouped under "miscellaneous securities".*

*For complete requirements see Barron's June 17, 1929

International Corp.; American Express Company;

Continental Bank, Inc.; General Electric Corp.;

International Telephone and Telegraph Corp.;

Standard Oil Co.; United Fruit Corp.;

United States and Foreign Securities Corp.

Requirements for listing may vary with matters as (1) country

of all important provisions in the charter, articles of incor-

poration, by-laws, etc.; (2) management, method of accounting

compensation for same, including options, warrants and other

forms of indirect compensation; (3) aggregate value of capital

surplus and funded debt; (4) costs of organization and selling

expenses of each class of security; (5) charges by the manager

of the funds or only "costs of organization or listed securities

and reasonable compensation to listed securities"; (6) right to

vote and its application to all classes of stock together with

provision that non-voting stock shall not be listed unless

"substantially protected as to both dividends and assets"; (7)

statements of earnings and of surplus, together with a balance

sheet to be published annually; (8) earnings, and what they are

to include; (9) method of creating profits from syndicate pur-

chases; (10) statement showing a list of the holdings of the

trusts, the price at which securities were purchased, with a

provision that up to 10% of the issued capital may be purchased

under "preference securities".

*For complete requirements see Bureau's June 12, 1937

Trusts that are honestly and ably managed will undoubtedly feel it worth while to meet these requirements. The expression of opinion at the last meeting of the Investment Bankers Association of America was that the matter had been approached in a most excellent way by the Exchange and that all bankers interested in investment trusts should strongly urge that they apply for listing. It was felt, furthermore, that the fact a trust was granted the privilege was a strong recommendation in its favor.

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CHAPTER VI

FUTURE OF SPECIALIZING TRUSTS: DEDUCTIONS

CHAPTER VI

THEORY OF THE EARTH'S CRUST

In the future there will probably be few outright failures among the investment trusts. Instead, as has been suggested, a number will withdraw or consolidate, leaving the field to the stronger and more capably managed. This does not necessarily mean that only the large trusts will survive. It is the opinion of the writer that some of the smaller trusts which are well organized and conservatively managed will be able to show fully as good results, and, in some cases, even better returns to the investor than the companies of extraordinary size.

Standardized practices will gradually develop, and the abuses of management will tend to disappear. Abnormal fees absorbed by managers will be eliminated owing to competition between the trusts themselves and to the increase in publicity which will teach the investor to be more discriminating. Various trusts, particularly the smaller, will probably not retain their own management corporations and research bureaus. To avoid duplication of expense and effort, they will turn more and more to the services of the investment trust consultants such as Edgar Higgins, Incorporated, or the Fiscal Bond & Share Corporation, or other organizations formed expressly for the purpose of supervising investment trusts. As time passes it will be possible to secure more expert managers. Many of the executives who are now at the head of the various

investment trusts will be strengthened by their experiences.

Many trusts will alter their policies as a result of the troublous times which they are now attempting "to weather". Those following the best practices will not buy stocks or bonds in the future merely because there has been a decline in price. Neither will they endeavor to take advantage of minor fluctuations and swings. Rather they will consider the possibilities for the long pull and the character and the nature of the particular company issuing the securities. Income, not the expectation of immediate market profits, will be the basis for selecting securities. Capital gains will be treated as such and will be reinvested and compounded rather than distributed as dividends in order to show unusual earnings.

Most writers feel strongly that there will continue to be a gradual decrease in the number of fixed and semi-fixed trusts in favor of the management type. Although there are probably not more than fifteen or twenty trusts of the rigid type now in existence, there is no reason why those which are already well-established should not continue to make an appeal as they have previously done to a certain group of investors who are not speculatively inclined. Those trusts organized at the beginning of the bull market had the advantage of buying at greatly depressed prices. Diversification in "gilt-edged" securities

Investment firms will be strengthened by their experience.
Many trusts will also be justified as a result of the
conditions which they are now attempting to meet.
Those following the best practice will not only survive but
in the future may be able to make a fortune in the
market with their superior knowledge of market conditions.
Others will be forced to consider the possibilities
for the long run and the character and the nature of the
financial system facing the world. There is no doubt
that of immediate market profits, will be the basis for select-
ing securities. Capital gains will be treated as such and will
be reinvested and compounded rather than distributed as divi-
dends in order to avoid unusual taxation.
Most writers feel strongly that there will continue to be
great increases in the number of fixed and semi-fixed funds in
favor of the common stock type. Although there are probably not
more than fifteen or twenty funds of the right type now in
existence, there is no reason why those which are already well
established should not continue to make an appeal as they have
previously done to a certain group of investors who are not
speculatively inclined. These funds organized at the beginning
of the bull market had the advantage of being at the right
pressed prices. Diversification is still one of the best

will always afford certain advantages, although undoubtedly the fixed type of trust will not, in the near future at any rate, show such unusual yields nor distribute such large dividends.

Among the fixed and semi-fixed trusts there will probably be an increasing tendency to develop new provisions so that the non-discretionary characteristics will gradually disappear in favor of less restricted management. For instance, North American Trust Shares has this "elimination" feature. The prospectus of the Trust reads: "Non-income producing stocks may be eliminated at the discretion of the Depositor upon the failure of any of the above corporations (8 railroads, 5 oils, 12 industrials, 3 utilities) to pay a usual dividend, unless a dividend is paid before the stock is sold. Should any of the above corporations fail to pay any dividend for a period of one hundred days after its failure to pay a usual dividend, the Trustee shall sell the stock." The American Securities Shares in its prospectus states that the Trustees may buy and sell shares at their discretion from an original group of stocks consisting of over one hundred companies and that stocks may be disposed of when the occasion arises.

Most newly organized trusts will adopt the corporate structure because, as a corporation, appeal may be made to three classes of investors. Those desiring safety who are satisfied

will always retain certain advantages, although undoubtedly
the fixed type of stock will not, in the near future at any rate,
show such unusual yields as have been seen in the past.
Among the fixed and semi-fixed types there will probably
be an increasing tendency to develop new provisions so that the
non-directly participating will gradually increase in
value of both interest and management. The interest, which has
been fixed at 5% and the "participation" feature, the purpose
of the fixed bonds: When bonds are issued which are to be
distributed at the discretion of the corporation upon the basis
of one of the above considerations (8% participation, 5% fixed, 12% interest,
or 10% participation) to pay a small dividend, which is a dividend
in kind before the stock is sold. Should any of the above con-
siderations fail to pay any dividend for a period of one hundred
years the corporation is to pay a small dividend, the interest
will be 5% and the stock will be sold at 100% of the value in the
company. It is to be noted that the interest is not paid and the stock is
not distributed from an undivided fund of stock but from the
of one of the above considerations and that which may be distributed
at the discretion of the corporation.
Most newly organized companies will adopt the corporate stock
type because, as a corporation, it is to be made to have
classes of investors. The first class is the one which

with low yields will buy bonds. Those wishing a somewhat higher fixed return and the security of a prior claim on assets will take preferred stock. The more speculatively inclined will purchase common stock anticipating extraordinary future yields. There is, moreover, the possibility of attracting some investors by selling as a unit a preferred share together with two or three common shares. This is done in the case of the Securities Company of New Hampshire, one of the older trusts, which was incorporated in 1922 with a capitalization consisting of first preferred callable, second preferred, and common stock.

Already one of the companies created under a declaration of trust, Insuranshares Trusts, has terminated as of December 31, 1929. In a letter to the writer, the following statement was given: "The advantage of a corporate structure which permits the listing of its capital issues is so superior to a trust structure, that as above indicated we are incorporating the Trust Certificates."

Regarding those trusts which specialize in common stocks and are organized as common law trusts or take the form of a corporation issuing but one class of shares, there seems to be no reason why these should not continue to have a favorable development. Most of these mutual types of trusts fared exceptionally well during the recent decline, possibly because

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preferred stock, second preferred, and common stock.

Almost one of the companies created under a declaration of
trust, International Trusts, has terminated as of December 31, 1934.
In a letter to the writer, the following statement was given:

"The advantage of a corporate structure which permits the first-
rank of the capital to have an superior to a trust structure,
that no more indicated to me in recommending the Trust Capital

trust.

Regarding those trusts which specialists in common stocks
and are organized as trusts for the purpose of holding the stock of a
corporation having one class of shares, there seems to be no reason why these should not continue to have a favorable

development. Most of these trusts have a large fund of
capital which will during the recent decline, possibly be

Among them are some of the older, conservatively managed trusts.

Although these trusts have avoided bonds and invested practically all of their funds in stocks, there is a tendency to include the former in their portfolio since the market break. Irving Investors Management Company, Inc. is calling attention to the fact that the provisions of its indenture permit of "complete freedom to invest in bonds."* Incorporated Investors in its prospectus stresses that "supervision is constant and changes are made when necessary to maintain the policy of buying and holding the best." In literature recently distributed, the statement is made that while common stocks will always comprise the greater part of the investments of Incorporated Investors and "they will always comprise the total of the permanent investments", money may be put into call loans or short-term bonds may be purchased or money may be kept in the form of cash when it is deemed advisable".**

From all indications, it seems that these managed fund participations will hold in public favor and may even increase in numbers after a period of time has elapsed.

There will be no extensive investment in bonds by most of the investment trusts, except possibly for a temporary period. Furthermore there will be but few bond trusts created, even though there continue to be violent fluctuations in common stocks. Not a great deal is to be gained by wide diversification of bonds.

*Letter to the writer, November 4, 1929

** Pamphlet, "Profits--through scientific investing", published by The Parker Corporation, page 16.

Among them are some of the older, conservatively managed trusts. Although these trusts have avoided bonds and invested primarily all of their funds in stocks, there is a tendency to include the former in their portfolios since the market prices of Living Investment Management Company, Inc. is selling at a premium to the fact that the provisions of its charter permit it to "complete freedom to invest in bonds." Incorporated investors in a prospective business that "unrestrictedly" maintain and change are made then necessary to maintain the policy of buying and holding the stock. In literature recently distributed, the statement is made that while common stocks will always continue the greater part of the investments of incorporated investors and "they will always comprise the total of the permanent investments," money may be put into call loans or short-term bonds may be purchased or money may be kept in the form of cash when it is deemed advisable.

From all indications, it seems that these engaged funds and corporations will continue to hold their own and may even increase in number after a period of time has elapsed.

There will be no extensive purchases in bonds by any of the investment trusts, except possibly for a temporary period. Furthermore there will be but few new funds created, even though there continues to be violent fluctuations in common stocks. Not a great deal is to be gained by the accumulation of money.

The amount of return is not likely to be attractive enough to appeal to many and would not prove much better, if any, than could be secured by the individual investor acting independently. By consulting his banker or broker, the investor can obtain as good advice and as much supervision in making his choice as the investment trust could afford him. After the selection is once made, there is no necessity for the close supervision that there is with common stocks. From the point of view of the organizers, there is not sufficient incentive to deal exclusively in bonds as the profits are small and the compensation in turn would be correspondingly so.

Those trusts which specialize in the securities of particular industries will be likely to remove various restrictions, thus depending more on the trading ability of the managers. For instance, a letter to the shareholders of Metal & Mining Shares, Incorporated, dated September 17, 1929, reads, "The increase in earnings, as reflected in the figures for the months of July and August, are, of course, primarily attributable to the removal in July of the restrictions on investments which previously had somewhat handicapped the rapid shifting of our investments when such shift was necessary." On December 16, 1929, in a letter to the writer, Mr. Binns of the Statistical Department of the P. H. Whiting & Co., Inc. remarked, "Metal and Mining Shares, Inc.

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there is not sufficient incentive to deal exclusively in bonds
as the profits are small and the compensation in time and effort is
unreasonably high.

There is one other question in the selection of bonds
that investors will be likely to raise, and that is, how
shall they go on the rising activity of the market, for
instance, a letter to the shareholders of United States
Investment, dated December 17, 1929, states, "The increase in
activity, as reflected in the figures for the month of July and
August, are, of course, primarily attributable to the general in-
crease of the participation in investments which previously had
somewhat handicapped the rapid selling of our investments when
each shift was necessary." On December 15, 1929, in a letter to
the writer, Mr. Blinn of the National Department of the
P. B. Mining & Co., Inc. remarked, "Metal and Mining Market, Inc."

does not specialize exclusively in the common stock of metal and mining companies." He referred to the fact that during the recent market break the company was investing in bonds, having previously liquidated nearly 55% of its holdings in July, August, and September, 1929.

The task of management of these specializing trusts which deal primarily in the stocks of one type of industry will become even more exacting and the research work even more extensive. Changes in the portfolio must be made without hesitation when the need arises and unsatisfactory issues must be disposed of and replaced with more promising ones. Naturally greater risk is involved in investing in this type of trust owing to the lack of broad diversification and the fact that the underlying securities are likely to rise and fall together, thus making earnings unstable.

As both banks and insurance companies have developed over a period of years substantially in excess of the increase in the population, there is no reason to predict anything but a prosperous future for well managed trusts dealing in the securities of the best types of these institutions. Great care, however, must be exercised by the investor to select a trust which has the right kind of underlying securities.

Regarding banks, it must be remembered that there are a great many of all kinds. During the last few years banking

does not represent a significant change in the overall picture of the market and is not a cause for concern. It is noted that the market has been in a state of relative stability since the beginning of the year, with the market having previously indicated a slight upward trend in the latter part of the year, and a slight downward trend in the latter part of the year.

The lack of movement of the market is a result of the fact that the market is not a very active market, and the market is not a very active market. Changes in the market are not a cause for concern, and the market is not a very active market. When the market is not a very active market, the market is not a very active market, and the market is not a very active market. The lack of movement of the market is a result of the fact that the market is not a very active market, and the market is not a very active market. The lack of movement of the market is a result of the fact that the market is not a very active market, and the market is not a very active market.

As both the market and the market are not a very active market, the market is not a very active market. The market is not a very active market, and the market is not a very active market. The market is not a very active market, and the market is not a very active market. The market is not a very active market, and the market is not a very active market. The market is not a very active market, and the market is not a very active market. The market is not a very active market, and the market is not a very active market. The market is not a very active market, and the market is not a very active market. The market is not a very active market, and the market is not a very active market.

conditions have changed considerably. There has been an increasing tendency towards consolidations and mergers. Some of the leaders in this field are urging legislation to permit branch banking. According to Arthur M. Leinbach writing in the Magazine of Wall Street for November 30, 1929, one per cent of the banks control over ten billion dollars worth of the banking resources, approximately three-quarters of the nation's bank deposits. The number of bank failures, particularly in the agricultural and rural districts is alarming. Banks have become underwriters and have entered the field of security distribution, in several instances withdrawing from the Federal Reserve System and taking out state charters. Many banks have formed their own subsidiaries; for instance, the Chase National Bank has the Chase Securities Corporation, the First National Bank of New York, the National City Company.

It is difficult to determine the conditions or the earning power of these bank which have affiliates. In many cases the latter earn much more than the banks themselves. Before the market break, bank stocks were purchased primarily with a view to appreciation. Even in the face of great developments, there is a question if bank stocks--the prices of which have been cut in halves in many cases--are not now much too high.

The investment trust dealing in bank stocks must be particularly capable of analyzing the condition of the various banks

and must be thoroughly conversant with not only the management but its policies.

The stocks of insurance companies present attractive possibilities, particularly the older companies which have great diversification of risks. At the present time (January, 1930), insurance stocks average but slightly higher than they did in 1928. Skillfully managed investment trusts dealing in this type of security should offer the shareholder or the stockholder a moderate, stable return on his investment.

Peculiarly no trusts, specializing or otherwise, have originated as the result of the cooperation of a group of small investors acting in their own interest. Perhaps the Alexander Fund, an agency created in 1907 by the founder, W. Wallace Alexander, with four participants and \$1200.00 in investments comes nearest to this idea. The Amalgamated Investors, Inc., owned and controlled by the Amalgamated Clothing Workers of America, is another organization which was formed to serve the individual investor. The recently organized "Dollar Share" investment trust offers the "wage earners and others of limited resources the opportunity to participate in the nation's prosperity." One of the functions of the investment trust, according to many of the prospectus, is to assist the small, inexperienced investor. As yet, however, it appears that most trusts have been more useful to the wealthy man looking for an

and must be thoroughly conversant with the business
and the market.

The stock of insurance companies is not attractive
investments, particularly the older companies which have
diversification of risks. At the present time (January, 1920)
insurance stocks average but slightly higher than they did in
1919. Initially caused financial trouble during the war
of 1914-1918, after the withdrawal of the stockholder's
moderate, stable return on his investment.

Especially in times, specializing in different
investments as the result of the suspension of a group of
investments and in their own interest. Perhaps the interest
fund, as a result of the war, is the most, V. Waller
investments, with their participation and \$100.00 in investments
many interest in this case. The insurance investment
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invested in insurance companies and the interest in the
investments. The interest in the insurance companies
investment fund offers the large returns and a high rate of
return. The opportunity to participate in the market's
growth. One of the functions of the investment fund, however,
is to keep the fund's growth, as to assist the fund's
particular interest. As yet, however, it appears that
investments have been made in the market and the fund for the

investment for his surplus funds than to the man of moderate means. In the future, probably more attention will be given to the small investor.

During the recent bull market, many trusts were organized with little regard for the investor. Many of them were simply money-making schemes for their promoters. When options are granted to buy stocks at a low price after the company has proven a success and when founders' shares are given the organizers, the benefits of management are negative. Trusts following such practices should be able to prove to the public that the organizers are not reaping an unreasonable share.

In a study made by Carl Williams as published in the Magazine of Wall Street for September 21, 1929, out of 41 representative trusts with assets over ten millions of dollars, 13 granted organizers compensation in the form of options, while 37 companies gave the managers common stock ranging approximately from 10% to 80% on the amount issued.* In the future, in order to meet the competition of the "blind pools", there will be an increasing tendency for honestly sponsored houses to reveal to the public the abuses of such practices where organizers put an excessive price on their own ability. The fixed trust and the fund-participation type has an advantage in that such abuses are eliminated by the very nature of the financial set-up. The promoters and organizers, usually the

*Figures derived by the writer (chart set forth on page 911, Magazine of Wall Street, September 21, 1929)

investments for the various funds than for the rest of the world.
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following such schemes should be able to prove to the public
that the organizations are not trading in unmarketable shares.

In a statement by Carl Williams as published in the

Magazine of Wall Street for September 17, 1929, and of 11

representative trusts with assets over ten millions of dollars.

is granted organization compensation in the form of options, which

is common to have the same one common stock range of shares.

Not only from 1929 to 1930 but the amount issued. The amount

in order to secure the completion of the "blue book", there

will be an increasing tendency for wealthy sponsored shares

to reveal to the public the amount of such practices where

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in that such shares are distributed by the very nature of the

financial set-up. The promoters and operators, usually the

persons involved by the writer (June and July 1931)

Magazine of Wall Street, September 17, 1929)

managers, receive no bonus stock or options.

Which type of trust or trusts is best suited to the requirements of the American investor yet remains to be determined. Specializing investment trusts dealing primarily in one class of security and featuring--though not exclusively--fixed and limited management practices, will unquestionably be far outstripped in numbers and in size by trusts of the general management type dealing in all kinds of investments.

Present indications are that the specializing type of trust withstood the test period of the latter part of 1929 fully as well as the general management type. In neither case, however, did these institutions meet the break as successfully as they should have in that their securities did not hold firm. To fulfill the functions for which they are supposed to exist, the investment trusts should show better averages in a market depression than other types of investments. This they failed to do.

Arguments, reasonable and otherwise, were offered to offset unfavorable criticism, namely, "an abnormal market recession"; "poor technical position of investment trusts"; "too many undigested securities on the market". One investment trust sponsor claimed--and undoubtedly justly--that the banks, brokerage houses and others, not knowing the real value of investment trust stocks and holding them as collateral, forced

...to be a stock market.

Which type of fund or trust is best suited to the

...of the American investor yet capable to be

...investing in the stock market.

...of activity and the stock market.

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their sale before the better known stocks. This, he contended, gave a "black eye" to the investment trust securities.

The recent, spectacular market crash will undoubtedly have a positive effect in helping to weed out the undesirables and bring improper practices to the front. Those trusts which survive will be of real economic service. With the increasing tendency toward widespread publicity, the investor will have, in the case of the properly conducted trusts, a medium which offers expert assistance and which will net him a greater return on his investment than he could secure independently.

To quote from an article by Daniel Hamilton as to the possibilities of the investment trust for the investor:

"It is true that investment trusts have become the medium of a promotion era which has rarely been surpassed in our history.---It may be possible to look back to the present period from some vantage point twenty years in the future and say with truth that the investment trust promotion era yielded the highest percentage of return to its original investors and the greatest proportion of successes of any promotion era in American history up to this time. And it may even prove true that some of the investment trusts of today will return to their sponsors no less spectacular profits than General Motors has returned to its original investors."*

For the present, however, even though investment trust securities are selling at prices greatly under their liquidating value, it will be well for the man of moderate means who cannot afford to speculate to place his funds elsewhere. A number of well-established concerns are worthy of consideration, but, for the most part, few have been in existence long enough

*Barron's, October 15, 1928, page 8

to guarantee their stability or their income-producing possibilities. The wealthy man with surplus funds to invest may well include in his investment program the issues of one or two of the best investment trusts.

The report of the New York State Joint Legislative Committee on Banks, February, 1930, regarding its investigation as to the regulating of investment trusts, was particularly pleasing to investment trust sponsors and bankers as it was believed that no need for special legislation existed. According to Senator Cheney, Chairman of the Committee, "nothing inherently unsound in the the theory of investment trusts" was discovered. To quote from the report:

"We are of the opinion that the unwarranted prices paid during the past year by the public for securities of investment trusts and similar companies were simply a phase of a great speculative market. We do not believe that such bursts of speculative frenzy can be stopped by legislation. Judgment cannot be legislated into the investors' minds. Legislation cannot make the unintelligent investor discriminatory."-----"The evil has largely cured itself. Instead of shares selling at prices greatly in excess of values measured by assets held, there have been many instances where companies have assets well in excess of the value at which their shares are selling."*

Naturally the various heads of the investment trusts and those associated with these men predict a steady growth for the movement. Mr. George Putnam, president of Incorporated Investors, issued the first of February, 1930 said, "We are just beginning to be a nation of investors and the investment trust

*The New York Times, February 2, 1930, page 16

has already proved that it fills a real need. As we accumulate more wealth, the investment trust will fill an even greater need than it does today." Mr. Putnam suggested the advisability of requiring a repurchase clause in the investment trust charter with the intent of assuring to the shareholders the right to sell their shares at or near the true asset value of the stock.

An opinion less likely to be prejudiced, but one which was equally favorable, was made about the same time by Mr. Ray Vance, president of the Associated Society of Consulting Economists. His remarks were as follows.

"Management of American investment companies, commonly called investment trusts, have recently been subjected to a test, which in my opinion will not soon be duplicated, if ever. While some of these companies have been in existence four or five years, the majority were formed during the last eighteen months. The manner in which they have come through the recent trying times is a tribute to the generally high character and ability of the management personnel in this field. That losses were less than had been expected, and considerably less in proportion than to individual investors, has emphasized again the value of fundamentals of investment company operation." *

In conclusion, unquestionably the trusts will have a steady growth and will endure in America as they have in Great Britain. Although the trend will be toward the general trust dealing in all kinds of securities, there will still continue to be a place for the specializing trust. A number of excellent trusts exist in the latter field which, catering

*The New York Times, February 2, 1930, page 16

has already stated that it is a very small matter, and that it is not a matter of principle, but a matter of fact. It is a matter of fact that the Government has no right to interfere with the business of the people, and that it is the duty of the Government to protect the rights of the people. The Government has no right to interfere with the business of the people, and that it is the duty of the Government to protect the rights of the people.

The Government has no right to interfere with the business of the people, and that it is the duty of the Government to protect the rights of the people. The Government has no right to interfere with the business of the people, and that it is the duty of the Government to protect the rights of the people.

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as they do to individual tastes and fancies, will attract at least as many as formerly from among the great army of American investors. After they have passed through the pioneering stage, trusts of all kinds will emerge as a permanent part of our financial structure.

as they go to different levels and levels, with others
at least as many as formerly from among the great army of
laborers and workers. After they have passed through the
planning stage, those of all kinds will emerge as a
major part of our economic structure.

APPENDIX

Definitions

"What is an investment trust? A broad definition might be worded as follows: The investment trust is an agency by which the combined funds of many investors, both in large and in small amounts, are utilized to purchase such a wide variety of securities that safety of principal is attained in diversification, while no control, or directive responsibilities, result from investment. Furthermore the investment portfolio is so managed that a good average yield is sought on share and borrowed capital, at the same time that close supervision of the portfolio permits a turnover policy aiming at the realization of capital gains, and the avoidance of capital losses.

According to the above definition, the typical investment trust will show the following characteristics:

1. It raises capital by issuing stock, generally both preferred and common; and it frequently exercises its borrowing powers by creating bond indebtedness, and occasionally in other ways.
2. The funds so obtained it invests and reinvests in a wide variety of securities, distributing risk over many industries, countries, and types of issues.
3. It appeals to the cautious investor by offering bonds and stocks participation in reasonable denominations; and it aims to protect his interests, whatever the nature of his holdings, by skillful management of the investment portfolio.

In addition to offering the greater security which results from intelligent diversification, the typical investment trust holds out to its common stockholders the owned, and from the profits made by buying either stocks or bonds which their investigations show to be selling below intrinsic value."

"Investment: A New Profession"---Henry S. Sturgis

"Investment trusts may be defined as financial

"That is an investment really a broad definition
 might be made as follows: The investment is a
 group of which the company has a right to
 own in large and in small amounts, and is entitled to
 share such a wide variety of activities that
 principal is entitled to dividends, while no
 kind of specific responsibility, except from
 such. Furthermore the investment is not
 and that a good example of the same is the
 interest earned, at the same time of the
 of the portfolio yields a return which is
 realization of capital gains, and the
 (a) income.

According to the above definition, the
 investment fund will have the following characteristics:

1. It raises capital by issuing stock, generally
 sold privately and usually, and is frequently
 its following pattern by the fund management, and
 occasionally in other ways.
2. The fund is placed in various and
 in a wide variety of securities, including
 any investment, committed, and type of income.
3. The fund is the subject of a
 board and is not restricted in its investment
 and is not subject to the same restrictions
 of its funds, its initial investment of the fund
 is not.
4. In addition to offering the investor a return
 on his investment, the fund is also
 designed to provide a return on the investor's
 investment, and from the profits made by the fund
 of the fund, the investor is entitled to be
 for the fund's return.

"Investment: A New Definition" -- Henry S. Gump

Investment: A New Definition -- Henry S. Gump

institutions organized for the purpose of enabling the individual investor to obtain the advantages of wide diversification. The principal business of the trust is the investment of funds in a diversified list of stocks and bonds. The capital obligations of the trust representing participation in the assets held, therefore, offer to the small investor an investment diversification otherwise impossible. Investment trusts may be distinguished from holding companies, in that the latter are usually formed for the purpose of acquiring managerial control over one or more operating companies, while the former purchase securities solely as investments. Furthermore, the bonds issued by investment trusts must be distinguished from the collateral trust bonds sometimes issued by holding companies. The issuance of the latter is but incidental to the main business of the holding company, while the issuance of bonds by the investment trust is often an essential part of its expectation of considerable enhancement in earning power of their shares. This primarily arises from (a) a higher average yield than can be safely obtained without a volume of capital permitting considerable spreading of risk; (b) the reinvestment of borrowed funds at higher return than the cost of these funds to the borrowing investment trust; and (c) the balance of capital gains (generally used to strengthen reserves) which a well-conducted trust should show as the outcome of its managerial alertness."

"Investment Trust Organization and Management" (page 5)
Leland Rex Robinson

"Investment Trusts have existed in England and Scotland for some fifty years, and have had an excellent record. In brief, these organizations raise money through the sale of their own securities to the general public. The funds so raised are then invested under the guidance of a staff of experts in the most careful and scientific manner possible. These trusts are much like banks except that they deal entirely in securities rather than in liquid capital. They buy stocks or bonds in any part of the world after a most careful investigation. Their purchases are predicated upon a study which gives them reason to believe that the return being paid, or confidently to be expected, will be something more than enough to compensate for the risk being taken.

They expect to make a business profit in their investments as well as to receive an income. The income received comes from the interest and dividends collected on the securities business, and constitutes an important source of capital with which it conducts its operations."

"Investment Principles and Practices" (page 540)
Ralph Eastman Badger, Ph.D.

"An investment trust may be defined as an organization for the collective investment of funds of numerous individuals in numerous securities."

"American Investment Trusts" (page 20)---John Francis
Fowler, Jr.

They expect to make a substantial profit in the investment
as well as to receive an income. The income is derived from
the interest and dividends collected on the securities
purchased, and constitutes an important part of the total
with which is combined the principal.

"Investment Securities and Trusts" (Page 222)
Wiley Eastern Edition, 1930.

Investment Securities

"An investment trust may be defined as an organization
for the purpose of investing funds of members in securities
in a common fund."

"Investment Securities" (Page 222) -- John Wiley &
Sons, Inc.

FOREIGN & COLONIAL GOVERNMENT TRUSTS, 1868

(Exhibit D--according to extended remarks of Mr. McFadden in Congressional Record--House-page 3909--February 29, 1928)

The best early enunciation of the principle involved in the investment trust company is contained in the prospectus of the Foreign and Colonial Government Trust, issued in 1868:

"The object of this trust is to give the investor of moderate means the same advantages as the large capitalist in diminishing the risk of investing in foreign and colonial government stocks, by spreading the investment over a number of different stocks and reserving a portion of the extra interest as a sinking fund to pay off the original capital.

"A capitalist who at any time within the last 20 or 30 years had invested, say, £1,000,000 in 10 or 12 such stocks selected with ordinary prudence, would, on the above plan, not only have received a high rate of interest, but by this time having received back his original capital by the action of the drawings and sinking fund, and held the greater part of his stocks for nothing.

"Some parties, believing that it would be a convenience to the public if such a mode of investment were made generally accessible, have made arrangements by which well-selected Government stocks, to the value of £1,000,000 sterling, will be placed in the names of the following trustees, viz:

"The Right Hon. Lord Westbury.

"The Lord Eustace Cecil, M.P.

"G.M.W. Sanford, Esq. M.P.

"George Wodehouse Currie, Esq., M.P.

"Philip Rose, Esq."

The trustees had decided that a certain group of dividend-paying foreign and colonial stocks should be selected for purchase with the funds of the trust- namely, Austrian, Australian, Argentine, Brazilian, Canadian, Chilean, Danubian, Egyptian, Italian, Nova Scotian, Peruvian, Portuguese, Russian, Spanish, Turkish, and United States bonds- no more than £1,000,000 being invested in the stock of any one government. The average rate of interest on the investment in these stocks was given as 8 per cent, while profits were expected from the repayment at par of a large number of them, purchased

THE STATE OF TEXAS, 1912

(Revised) -- according to amended reports of the
in Commercial Record-- Texas-- January 22, 1912

The first party mentioned in the report is
the investment of the company is estimated at \$100,000
of the capital and original investment of \$100,000

"The object of this report is to give the
investor some idea of the value of the
in determining the rate of investment in Texas and
investment of the company is estimated at \$100,000
of the capital and original investment of \$100,000
interest on a sinking fund to pay off the original capital

A capital of \$1,000,000 is the limit of the
30 years and interest, say, \$1,000,000 is to be paid
collected with interest, bonds, or the same way,
not only have received a high rate of interest, but
the investor receives back his original capital of the
at the maturity and sinking fund, and also the interest
of the bonds for nothing.

"The first, following that is to be a
to the state is a sum of \$100,000,000, which is
sufficient, and the same amount of money will be
invested in the state of Texas, and the same
be placed in the hands of the following companies, viz:

- 1. The Texas & Pacific Railway
- 2. The Texas & Pacific Railway
- 3. The Texas & Pacific Railway
- 4. The Texas & Pacific Railway
- 5. The Texas & Pacific Railway
- 6. The Texas & Pacific Railway
- 7. The Texas & Pacific Railway
- 8. The Texas & Pacific Railway
- 9. The Texas & Pacific Railway
- 10. The Texas & Pacific Railway

The above is the list of the companies which
have been established in the state of Texas, and
the amount of the capital of each company is
estimated at \$100,000,000, which is the same
amount of money which is to be invested in the
state of Texas, and the same amount of money
will be placed in the hands of the following
companies, viz:

considerably below that figure. The certificates of £100 each were to bear 6 per cent interest and to be issued at 85. This, as a matter of fact, was an investment trust in the modern sense of the term. Designed for the benefit of the middle-class investor in the later sixties, it was destined, as we shall see, to be the model of another trust, issued under practically the same auspices, nearly 50 years later, for the purpose of attracting a democratic clientele by a direct appeal to the "people".

unusually poor that time. The condition of the
work was so poor that it was not possible to do any
of. This, as a matter of fact, was an important factor in
the modern sense of the term. It was the result of
the middle-class investor in the later stages of the
development, as we shall see, to be the point of departure
from which the modern investor, as we shall see, nearly all
later, for the purpose of the modern investor is to
be a direct appeal to the "people".

THE FINANCIAL TRUSTS--"INVESTMENT BY PROXY" AND ITS EXTENSION

(Exhibit D--according to extended remarks of Mr. McFadden in Congressional Record--House-page 3908--February 29, 1928)

In spite of the large sums lavished in financing the "new" nationalities and in equipping the ephemeral joint-stock ventures of 1826, as well as the innumerable railway projects which followed them, it remains true that down to the accession of Queen Victoria a huge proportion of investment was on mortgage. The reason, as Sergeant Onslow told Parliament in 1825, was that land was "the best and readiest security which could be offered for money". The solicitor general said at the same time, that none out of every ten estates in the kingdom were loaded with mortgages--one of the results of the terrific taxation necessitated by the Napoleonic wars. A multitude of small investors clung to the funds. Baring said in 1830 that out of the holders of the 274,823 stock accounts then on the books of the Bank of England, 250,000 did not receive a greater half-yearly dividend than £100, and the number of half-yearly dividends of £500 did not exceed 2,000. Of course, when the early Victorian public completely lost its head, as it did in the railway mania, the investing class was temporarily recruited from all sections of the community. The Government return of railway shareholders, issued in 1846, shows that there were upwards of 20,000 subscribers to the lines and branches seeking authorization in one session alone. These recruits included attorneys' clerks, college scouts, butchers, coachmen, dairy-men, beer sellers, butlers, footmen, and mail guards. But, broadly, the proposition remains true that these classes did not enter the arena of investment for many years after the railway craze.

When the mortgage began to go out of favor investment in stocks and shares of the industrial type, as well as the best class of foreign bond, was still a privilege restricted to the wealthy. A typical list of shareholders of the mid-Victoria period will be found to include practically only representatives of the wealthy, landed, and professional classes. Their holdings, moreover, were all in large blocks.

Middle-class respectable people, especially, believed that all money invested outside the pale of government securities was embarked in speculation. They had yet to learn the meaning and solidity of a first-class industrial debenture with a huge margin behind it. The best that could

THE FINANCIAL POSITION OF THE UNITED STATES

(Article I - Appropriation for the United States, 1934)
Congressional Record - House - 1934 - 75th Congress

In view of the fact that the United States is a
"new" nation, and its population is increasing at a
rapid rate, it is not surprising that the United States
is one of the most rapidly growing nations in the world.
The population of the United States in 1934 was 122,000,000,
and it is estimated that by 1950 it will reach 150,000,000.
This rapid increase in population has created a great
demand for more land, and the United States has been
forced to acquire new territory. The acquisition of
new territory has been a constant feature of the
United States' history, and it is expected that this
process will continue for many years to come. The
United States has acquired a large amount of territory
in the past, and it is expected that it will acquire
more in the future. The acquisition of new territory
has been a constant feature of the United States' history,
and it is expected that this process will continue for
many years to come. The United States has acquired a
large amount of territory in the past, and it is
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and it is expected that this process will continue for
many years to come. The United States has acquired a
large amount of territory in the past, and it is
expected that it will acquire more in the future.

be said of the nervous middle class in the sixties was that it was beginning to lose its nervousness.

to the north of the western middle class in the United States
it was beginning to lose its influence.

INVESTMENT RESTRICTIONS OF THE FINANCIAL INVESTING COMPANY
OF NEW YORK, LTD.

(A General Management Trust)

The management of the Company is governed by the following restrictions, which are imposed in Article VI of the By-laws:

STANDARDS OF VALUE

1. The Company cannot purchase "investment securities" (as defined in the By-laws) that originate in any country whose financial history shows instability or lack of recognition of private property rights;
2. nor securities of issuing organizations that have not been established at least three years;
3. nor securities on which it is impossible to obtain information;
4. nor securities that are not fully paid, non-assessable or that entail either double or unlimited liability.
5. The Company cannot engage in the practice known as "selling short", or in any other practice incompatible with the bona fide investment and re-investment of its assets.
6. There are other detailed provisions with reference to established book values, earning power, dividend records, etc., of securities eligible to be purchases.

STANDARDS OF DIVERSIFICATION

7. Not more than 1% of the investment assets of the Company (as defined in the By-laws) may be invested in any one security;
8. not more than 75% in securities originated in the United States; nor more than 15% in any other country;
9. not more than 30% in securities issued by financial institutions; nor more than 30% in railroad, land or marine transportation securities; nor more than 30% in public utilities; nor more than 30% in industrials; nor more than 50% in securities of governments, states or municipalities;

THE COMPANY SHALL BE RESPONSIBLE FOR THE PROTECTION OF THE
INFORMATION WHICH IS CONTAINED IN THE DOCUMENTS
AND RECORDS OF THE COMPANY.

REQUIREMENTS OF THE COMPANY

1. The Company shall maintain a system of records and documents which shall be sufficient to enable it to identify and locate all of its assets and liabilities.
2. The Company shall maintain a system of records and documents which shall be sufficient to enable it to identify and locate all of its assets and liabilities.
3. The Company shall maintain a system of records and documents which shall be sufficient to enable it to identify and locate all of its assets and liabilities.
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9. The Company shall maintain a system of records and documents which shall be sufficient to enable it to identify and locate all of its assets and liabilities.
10. The Company shall maintain a system of records and documents which shall be sufficient to enable it to identify and locate all of its assets and liabilities.

nor more than 20% in any other kind of interprise or business.

REQUIRED SALES

10. Should any security owned by the Company become ineligible for purchase at any time, such security, if already owned, must be sold within six months thereafter.

and were then sent to the office of the Secretary of the Interior.

REMARKS

It should be noted that the above is a summary of the facts as they appear in the records of the Bureau of Land Management. It is not intended to be a complete statement of the facts, but only a summary of the facts as they appear in the records of the Bureau of Land Management.

STIPULATIONS GOVERNING INVESTMENTS, DOMESTIC AND OVERSEAS
INVESTING CO., LTD.

(An Investment Trust of the British General Management Type)

STANDARDS OF VALUE

Investment can be made only in countries which have demonstrated their financial stability and recognition of private property rights; the issuing corporation or country must have been established at least three years; complete and trustworthy information must be available.

Bonds, notes, etc. purchased for investment must be secured as follows:

- (1) by marketable collateral of at least 110%; or
- (2) mortgaged property of at least 150%; or
- (3) by assets of the issuer of at least 200%.

Preferred stocks must have

- (1) an unbroken 5-year dividend record, or
- (2) a book value of at least 250% of the purchase price.

Common stocks must have

- (1) a 5-year dividend record equal to at least 4% per annum of the purchase price, or
- (2) a book value of at least 250% thereof

Should a security already held become ineligible for purchase, such holdings must be sold as soon as possible without sacrifice, or in any event within six months.

STANDARDS OF DIVERSIFICATION

The purchase of investment securities shall be subject to the following diversification restrictions:

- (a) Not to exceed Fifteen Per Cent (15%) in the aggregate securities originating in any foreign nation or country; and
 - (b) Not to exceed Thirty Per Cent (30%) in the securities issued by banks, insurance and other financial institutions; and
 - (c) Not to exceed Thirty Per Cent (30%) in securities issued by railroad, land and marine transportation
-

INVESTMENT TRUST OF THE UNITED STATES

INVESTMENT TRUST OF THE UNITED STATES

MANAGEMENT OF ASSETS

Investment can be made only in companies whose shares are listed on the New York Stock Exchange and whose business is primarily in the United States. The trustee shall not invest in any company which is not a member of the New York Stock Exchange or in any company which is not a resident of the United States. The trustee shall not invest in any company which is not a member of the New York Stock Exchange or in any company which is not a resident of the United States.

Investment shall be made in accordance with the following principles:

- (1) by purchase of shares of at least \$100.00;
- (2) by purchase of shares of at least \$100.00;
- (3) by purchase of shares of at least \$100.00.

Investment shall be made in accordance with the following principles:

- (1) an average 5-year dividend record;
- (2) a book value of at least \$10.00 per share.

Investment shall be made in accordance with the following principles:

- (1) a 5-year dividend record equal to or better than the average of the companies listed;
- (2) a book value of at least \$10.00 per share.

Investment shall be made in accordance with the following principles:

INVESTMENT IN REAL ESTATE

The purpose of investment in real estate shall be to provide a source of income for the trust.

- (a) Not to exceed twenty per cent (20%) of the assets of the trust in any one real estate investment; and

- (b) Not to exceed twenty per cent (20%) of the assets of the trust in any one real estate investment; and

- (c) Not to exceed twenty per cent (20%) of the assets of the trust in any one real estate investment; and

companies;and

- (d) Not to exceed Thirty Per Cent (30%) in securities issued by public utility companies; and
- (e) Not to exceed Thirty Per Cent (30%) in securities issued by industrial companies; and
- (f) Not to exceed Fifty Per Cent (50%) in securities issued by governments, states, municipalities or other political subdivisions thereof; and
- (g) Not to exceed Twenty Per Cent (20%) in securities issued by organizations engaged in any other kind of enterprise or business.

GOLDMAN SACHS TRADING CORPORATION

Since this thesis was written, Shenandoah and Blue Ridge have both retired some of their outstanding preferred stock. The former trust acquired 899,780 shares, partly through open market transactions and partly from the sponsors of the company. Blue Ridge acquired 74,200 shares. In both cases, the net asset value of the outstanding shares of common stock was increased; Shenandoah, \$5.00 a share, and Blue Ridge, \$0.16 a share. The idea of these trusts purchasing their own securities was not highly regarded by the Stock Exchange, it was rumored. Some, however, contended that it was a legitimate practice as long as the purchases were made at prices below the liquidating value of the stocks.

At the close of 1929, the net worth of the Goldman Sachs Trading Corporation was equivalent to \$40.94 on its outstanding capital stock of 5,691,310 shares. This included the shares issued as a stock dividend January 2, 1930. The income account of the corporation and its subsidiaries showed realized cash profits of \$30,979,778. for the period, not including any value for stock dividends received.

Peculiarly, "these realized profits are before adjustments arising from the re-valuation of assets occasioned by the general decline in security values and have been applied against capital surplus. No compensation is due or will be made to the managers for this period."*

*Boston Herald, January 9, 1930

WILSON'S 1914-15 FISCAL YEAR

Since this fiscal year, Wilson's, has been a very successful one. It has not only been a very successful one, but it has also been a very profitable one. The company has been able to increase its sales and its profits, and it has been able to do this without increasing its prices. This is a very good thing, and it is a very good sign for the future of the company. The company has been able to do this because of its excellent management and its excellent products. It has been able to keep its prices low, and it has been able to keep its quality high. This is a very good thing, and it is a very good sign for the future of the company.

At the close of the year, the company has a very good record. It has been able to increase its sales and its profits, and it has been able to do this without increasing its prices. This is a very good thing, and it is a very good sign for the future of the company. The company has been able to do this because of its excellent management and its excellent products. It has been able to keep its prices low, and it has been able to keep its quality high. This is a very good thing, and it is a very good sign for the future of the company.

Looking back on the year, the company has a very good record. It has been able to increase its sales and its profits, and it has been able to do this without increasing its prices. This is a very good thing, and it is a very good sign for the future of the company. The company has been able to do this because of its excellent management and its excellent products. It has been able to keep its prices low, and it has been able to keep its quality high. This is a very good thing, and it is a very good sign for the future of the company.

TEN TESTS FOR AN INVESTMENT TRUST
(From a radio talk by Smith, Scott
& Co., Inc. over WBZ and WBZA)

1. What does the trust own?
2. What is the property of the trust actually worth per share of the trust?
3. What do the shares of the trust sell for?
4. Who gets the difference--and why?
5. Are there any favored stockholders, any holders of options?
6. How is the price of the shares of the trust fixed?
7. What is the management's rate of compensation?
8. Does the management make money selling securities to the trust?
9. Are capital gains treated as income or put into capital reserve?
10. Has the shareholder the right to compel liquidation of his shares by the trust itself?

THE LAW OF THE STATE OF NEW YORK
IN SENATE,
January 1, 1907.

1. What does the word mean?

2. What is the property of the state usually called?

3. What is the name of the state of New York?

4. How does the state differ from other states?

5. How does the state differ from other states, and what is its position?

6. How is the name of the state of New York?

7. What is the meaning of the word "state"?

8. Does the word "state" mean any other thing besides the state?

the state

9. Are there any other things which are called "state" or "state"?

the state

10. How does the word "state" differ from other words?

the state

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Affiliated Investors, Inc., 15 Exchange Place, Jersey City, N. J.
Aldred Investment Trust, 192 Congress St., Boston, Mass.
Allied International Investing Corporation, 5 Nassau St.
New York, New York
Amalgamated Investors, Inc., Union Sq., New York, N. Y.
American Basic-Business Shares Corporation, 67 Wall St., New
York, N. Y.
American Industries Participation Shares, 1144 Buhl Building,
Detroit, Michigan
American British & Continental Corporation, 15 Exchange Place
Jersey City, New Jersey
American Capital Corporation, 929 Roosevelt Building,
Los Angeles, California
American European Securities Company, 15 Exchange Place,
Jersey City, New Jersey
American Founders Corporation, 50 Pine Street, New York, N. Y.
American Securities Shares, Bank of Commerce, St. Louis, Mo.
American Trustee Share Corp., 165 Broadway, New York, N. Y.

Bankers Capital Corporation, 44 Wall Street, New York, N. Y.
Bond Investment Trust, 24 Federal Street, Boston, Mass.

Century Shares Trust, 60 State St., Boston, Mass.
Chain Store Investment Corporation, 50 Congress St., Boston,
Massachusetts
Colonial Investors Shares, First National Bank Building,
Baltimore, Maryland
Connecticut Investment Trust, 59 Center St., New Haven, Conn.
Counselors Securities Trust, 24 Federal St., Boston, Mass.

Domestic & Foreign Investor Corporation, 100 So. La Salle St.,
Chicago, Illinois
Domestic & Overseas Investing Co., Ltd., 80 Federal St., Boston,
Mass.

Eastern Bankers Corporation, 1 Exchange Place, Jersey City,
New Jersey
Electric Investors, Inc., 2 Rector Street, New York City, N. Y.

Farmers' Loan & Trust Co., 22 William Street, New York, N. Y.
Federated Capital Corporation, 80 Federal St., Boston, Mass.

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Financial Investing Company of New York, Ltd., Chase National
Bank Building, 20 Pine Street, New York City, N. Y.
Fiscal Securities Corporation, 48 Wall Street, New York, N. Y.

General Public Service Corporation, 120 Broadway, New York, N. Y.
Goldman Sachs Trading Corporation, 60 Broad Street, New York,
New York
Guardian Investors Corporation, 61 Broadway, New York, N. Y.

Incorporated Investors, Parker, Putnam & Co., 60 State Street,
Boston, Mass.
Industrial Securities Corporation, 1155 Buhl Building,
Detroit, Michigan
Insuranshares Corporation of Delaware, 49 Wall Street, New York,
New York
Intercontinental Investment Corporation, 15 Exchange Place,
Jersey City, New Jersey
Irving Investors Management Co., Inc., 63 Wall Street,
New York, New York

Massachusetts Investors Trust, 85 Devonshire St., Boston, Mass.
Metal & Mining Shares, Inc., 72 Wall St., New York, New York

Nation-Wide Securities Co., Colorado National Bank Bldg.,
Denver, Colorado
New York & London Management Company, Ltd., 39 Broadway,
New York, New York
North American Trust Shares, 63 Wall St., New York, New York

Pennsylvania Joint Stock Trust Certificates, Lewis Building,
Philadelphia, Pennsylvania
Power & Light Securities Co., Sears Building, Boston, Mass.

Railway & Light Securities Company, 49 Federal St., Boston, Mass.

Securities Company of New Hampshire, Pleasant St., Concord, N. H.
Security Investment Trust, Inc., Security Building, Denver,
Colorado
Security Management Company, 24 Broad Street, New York, N. Y.
Security National Bond Trust Fund, St. Louis, Missouri
Standard Investing Corporation, 59 Wall Street, New York, N. Y.
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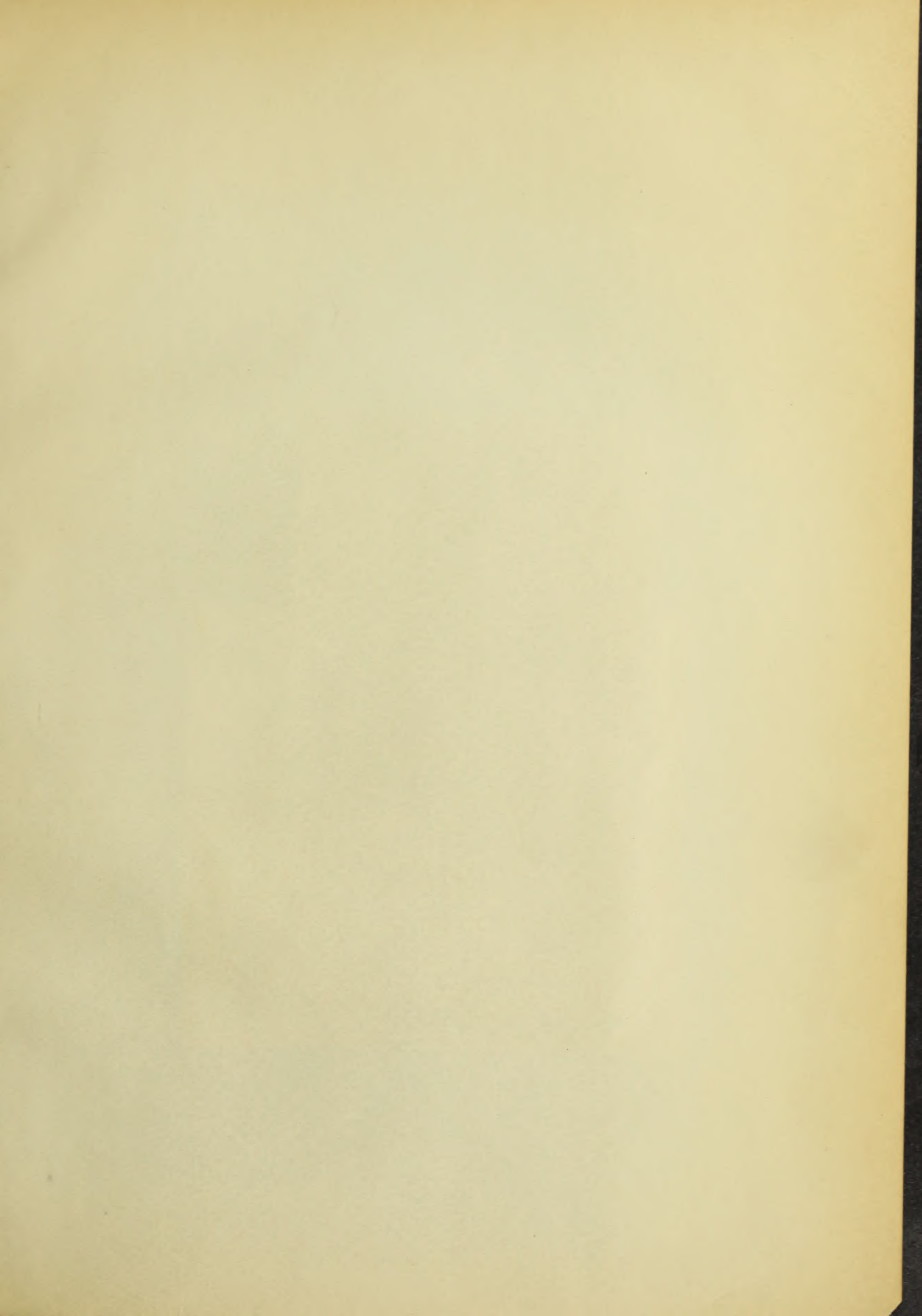
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United States & British International Co., Ltd., 50 Pine St.,
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United States & Foreign Securities Corporation, 786 Broad St.,
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United States Fiscal Corporation, 50 Broadway, New York, N. Y.
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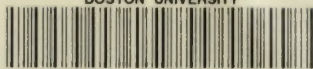
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